



**USAID**  
FROM THE AMERICAN PEOPLE

# THE LABOR SECTOR AND U.S. FOREIGN ASSISTANCE GOALS

## UKRAINE LABOR SECTOR ASSESSMENT



DECEMBER 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by ARD, Inc.

# Acknowledgements

The successful completion of our labor assessment in Ukraine was assured by the professional logistics direction provided by Ms. Ilona Demchenko, in Kyiv. Our thanks go to her and to all individuals and organizations in Donetsk, Kyiv, Lviv, and Simferopol who graciously shared their time with us. A complete list of contacts made by the team is provided in an annex to this report.

This publication was produced for review by the United States Agency for International Development by ARD, Inc., under the Analytical Services II Indefinite Quantity Contract Core Task Order (USAID Contract No. DFD-I-13-04-00227-00).

## USAID Technical Advisor:

Kimberly Ludwig, Senior Civil Society and Labor Advisor, USAID, Bureau for Democracy, Conflict, and Humanitarian Assistance, Office of Democracy and Governance

## Authors:

Barbara J. Fick, University of Notre Dame, Law School  
Olga Kupets, National University, Kyiv-Mohyla Academy, Kyiv  
Denise Lamaute, USAID, Europe & Eurasia Bureau, Labor Markets and Social Insurance  
Lincoln A. Mitchell, School of International and Public Affairs, Columbia University  
Lynn Salinger, Nathan Associates Inc.  
Asta M. Zinbo, USAID, Bureau for Democracy, Conflict, and Humanitarian Assistance, Democracy and Governance Office

## Prepared for:

U.S. Agency for International Development  
*Bureau of Democracy, Conflict, and Humanitarian Affairs and  
Bureau of Economic Growth, Agriculture, and Trade*

and

U.S. Department of State  
*Bureau of Democracy, Human Rights, and Labor*

## ARD Contacts:

Rhys Payne, Senior Technical Advisor  
John Brighenti, Project Manager  
159 Bank Street, Suite 300  
P.O. Box 1397  
Burlington, VT 05402  
Tel: (802) 658-3890 ext. 2407  
Email: [rpayne@ardinc.com](mailto:rpayne@ardinc.com); [jbrighenti@ardinc.com](mailto:jbrighenti@ardinc.com)

# THE LABOR SECTOR AND U.S. FOREIGN ASSISTANCE GOALS

UKRAINE LABOR SECTOR ASSESSMENT

DECEMBER 2008

## **DISCLAIMER**

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



# TABLE OF CONTENTS

<b>ACRONYMS</b> .....	<b>iii</b>
<b>EXECUTIVE SUMMARY</b> .....	<b>v</b>
<b>1.0 INTRODUCTION</b> .....	<b>1</b>
1.1 Why Labor and the Labor Sector? .....	1
1.2 Overview of Global Labor Sector Analytic Initiative .....	3
1.3 Organization of the Ukraine Labor Sector Assessment.....	7
<b>2.0 PRINCIPAL DEVELOPMENT CHALLENGES FACING UKRAINE</b> .....	<b>9</b>
2.1 Economic Growth Trajectory and Business Environment.....	10
2.2 Health Challenges and Demographic Crisis .....	13
2.3 Trade Liberalization and Economic Reorientation .....	14
2.4 Political Economy of Labor’s Under-Representation .....	17
2.5 Crimea.....	19
<b>3.0 UKRAINE’S LABOR SECTOR</b> .....	<b>21</b>
3.1 Legal Foundation .....	21
3.1.1 International Obligations .....	21
3.1.2 Domestic Legislation.....	22
3.1.3 Labor Law Strengths & Weaknesses .....	25
3.2 Government Institutions .....	26
3.2.1 Tripartite Social Dialogue.....	27
3.2.2 Ministry of Labor and Social Policy.....	27
3.2.3 Labor Justice System .....	33
3.2.4 Government Institutions Strengths and Weaknesses .....	34
3.3 Labor-Related Organizations .....	34
3.3.1 Trade Unions .....	34
3.3.2 Employer Organizations .....	36
3.3.3 Civil Society Organizations.....	38
3.3.4 Labor-Related Organizations Strengths and Weaknesses ..	38
3.4 Labor Markets In Ukraine.....	39
3.4.1 Labor Force Participation.....	39
3.4.2 Employment, Underemployment, and Unemployment.....	41
3.4.3 Wages and Non-Wage Labor Costs .....	42
3.4.4 Informal Employment.....	44
3.4.5 Migration and Trafficking .....	45
3.4.6 Labor Market Strengths and Weaknesses .....	45
<b>4.0 THE ROLE OF THE LABOR SECTOR IN OVERARCHING DEVELOPMENT THEMES</b> .....	<b>47</b>
4.1 Peace and Security .....	47
4.2 Governing Justly and Democratically.....	48
4.3 Economic Growth.....	49
4.4 Tensions and Synergies Among Themes .....	50
<b>5.0 STRATEGIC CONSIDERATIONS</b> .....	<b>53</b>
5.1 Foreign Assistance Context .....	53
5.1.1 Current USG Mission Strategy .....	54
5.1.2 Current USG Program and Other Relevant Initiatives.....	54
5.2 Summary: Strategic Considerations .....	58
5.2.1 Integrating Labor Sector Actors Directly into Rule of Law, Political Competition, and Civil Society Programs.....	58

5.2.2	Strengthening Labor and Workforce Development Initiatives in Local Economic Development Programs.....	61
5.2.3	Supporting Pension Reform Strengthens Labor Markets and Growth .....	62
5.3	Final Considerations .....	62
	<b>APPENDIX A: RESULTS FRAMEWORK.....</b>	<b>65</b>
	<b>APPENDIX B: CONTACTS.....</b>	<b>69</b>
	<b>APPENDIX C: REFERENCES .....</b>	<b>73</b>

## LIST OF FIGURES

Figure 1:	Global Labor Sector Analytic Initiative .....	4
Figure 2:	Four Components of a Well-Functioning Labor Sector .....	6
Figure 3:	Map of Ukraine .....	10
Figure 4:	Percentage of Population Age 65 and Over.....	14
Figure 5:	Ukraine Trade Partners, 2008.....	15
Figure 6:	Ministry of Labor and Social Policy Organigram .....	27
Figure 7:	Poverty Line & Minimum & Subsistence Wages in Ukraine.....	43
Figure 8:	Non-Wage Labor Costs as % Of Salary .....	44
Figure 9:	Labor Enabling Environment & USAID/Ukraine Program Priorities.....	53
Figure 10:	USG Ukraine Program Budget .....	56

## LIST OF TABLES

Table 1:	Comparative Economic Statistics .....	10
Table 2:	Comparative Development Indicators .....	12
Table 3:	Incidence of Ukrainian Payroll Taxes & Withholding, 2008 .....	29
Table 4:	Ukraine Pension Payments as % of GDP .....	30
Table 5:	Ukraine Labor Market Structure, By Age & Gender.....	40
Table 6:	Ukraine’s Unemployment Rates .....	41
Table 7:	USAID/Ukraine Program Summary .....	54
Table 8:	USG Ukraine Program Budget, Details .....	57

# ACRONYMS

ALMP	Active Labor Market Program
ARC	Autonomous Republic of Crimea
BYuT	Bloc of Yulia Tymoshenko
CEACR	Committee of Experts on the Application of Conventions and Recommendations
CLS	Core Labor Standards
CoLSA	Country Labor Sector Assessment
CSO	Civil Society Organization
DG	Democracy and Governance
DRL	US Department of State, Bureau for Democracy, Human Rights, and Labor
EG	Economic Growth
ETF	European Training Foundation
EU	European Union
FAF	Foreign Assistance Framework
FEU	Federation of Employers of Ukraine
FTA	Free Trade Agreement
FPU	Federation of Trade Unions of Ukraine ( <i>Ukrainian acronym is commonly used in English</i> )
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
ICPS	International Centre for Policy Studies
ILO	International Labor Organization
IMF	International Monetary Fund
IOE	International Organization of Employers
IR	Intermediate Result
ITUC	International Trade Union Confederation
KVPU	Confederation of Free Trade Unions ( <i>Ukrainian acronym is commonly used in English</i> )
LINC	Local Investment and National Competitiveness project
MCC	Millennium Challenge Corporation
MP	Member of Parliament
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organization
P	Pillar
PAYG	Pay-as-you-go
SES	State Employment Service
SIDA	Swedish International Development Agency
SME	Small- and Medium-sized Enterprises
SO	Strategic Objective
SpO	Special Objective
TFR	Total Fertility Rate
TSIA	Trade Sustainability Impact Analysis

TVPA	Victims of Trafficking and Violence Protection Act
UAH	Ukrainian Hryvnia
UN	United Nations
USAID	United States Agency for International Development
USG	United States Government
VOST	All Ukrainian Worker Solidarity
WTO	World Trade Organization



# EXECUTIVE SUMMARY

## *Principal Development Challenges Facing Ukraine*

After a decade of wrenching adjustments in the wake of the fall of the Soviet Union and independence, followed by nearly a decade of sustained growth, Ukraine has faced several economic and political challenges in 2009. These set the scene for this labor sector assessment, fieldwork for which was conducted by a multidisciplinary team in December 2008.

First, Ukraine has wrestled with the consequences of an economic growth trajectory that has not been broadly based, but rather has favored the creation of an oligarch class, surrounded by a limited middle class and workers who have become increasingly vulnerable in light of the global economic crisis. Second, it is contending with the effects of severe depopulation on its labor force and on the ability to generate resources to support a rapidly aging generation of pensioners. Third, having committed itself to external economic orientation through the launching in February 2008 of negotiations with the European Union (EU) of an Association Agreement and accession in May 2008 to the World Trade Organization (WTO), Ukraine must establish economic, political, and education and training systems that will enable Ukrainians to take advantage of new trade and investment opportunities and cope with competition from regional and global trade and investors. Finally, as Ukrainians have become increasingly disenchanted with national political stalemates and regional political/economic feuds with negative consequences for Ukrainians, the country must find a way to make the political process more responsive to the needs of a broader cross-section of the population.

Understanding Ukraine's political environment is essential to understanding economic policy, labor policy, and related issues affecting working people in Ukraine. Political cleavages in Ukraine—orange vs. blue, west vs. east, and Party of Regions vs. Bloc of Yulia Tymoshenko (BYuT)—do not break on economic lines. There is neither an identifiably labor-oriented party seeking to expand rights and protections for workers and to increase the state's involvement in the economy, nor a business party seeking to reduce the state's role in the economy and restrict the rights and protections of workers. Issues of wages, workers' rights, and the like have rarely been part of the policy discussion in Ukraine. Indeed, the political context has continued to rapidly evolve since the research for this assessment was carried out, especially with the 2010 election of the Yanukovich government. This assessment is based on the period preceding December 2010.

This is true despite the fact that a relatively large proportion, over 40% according to most estimates, of workers are unionized in Ukraine. However, this number is misleadingly large for two primary reasons. First, unionization in Ukraine occurs passively. Newly-hired workers at several of the major long-established employers are automatically made members of the large, Soviet-era successor, Federation of Trade Unions of Ukraine (FPU). Membership in this union extends to people in management positions, as well as to students and pensioners. The Confederation of Free Trade Unions (KVPU) is the much smaller, newer, and more independent trade union. Across both, union membership in Ukraine is concentrated in only a few industries, primarily state employees, including teachers, and heavy industry, primarily mining, steel, and related fields. Thus, there are huge gaps in union density as the retail, private- and foreign-owned industry, small business, and other less formal sectors have extremely low proportions of unionized workers. There are very few formal, or informal, means for these non-unionized workers to have their concerns addressed by the government.

The relationships between unions and political parties are also a key component to understanding why labor-related issues do not get sufficient attention from policy makers. On the surface, the relationship

between labor unions and political parties seems somewhat simple. The larger FPU, which dates from the Soviet period as the predominant worker organization, is aligned with the Party of Regions, while the much smaller, newer, and more independent KVPU supports BYuT. The FPU supports the Party of Regions, but it is not part of the Party of Regions' governing coalition in any real sense. The Party of Regions is a pro-business party which uses the FPU to communicate and direct workers, but the FPU does not seek to represent the interests of their members to the party. The KVPU has had a relationship with BYuT that goes back at least to the last years of Kuchma's presidency (1994-2005). However, the KVPU is much smaller than the FPU and therefore plays a less significant role in BYuT than the FPU does in the Party of Regions.

Ukraine's development challenges also need to be understood at the sub-national level. One region—the Autonomous Republic of Crimea (ARC)—is of particular consideration, for both economic and geopolitical reasons. Crimea has long held special significance to the Soviet Union and now Russia: already an autonomous republic under the Soviet Union, Crimea was ceded to Ukraine in the 1950s. Crimea's labor market is—in some ways—quite similar to that of the rest of the country. However, because its economy is dependent on two quite seasonal activities, agriculture and tourism, average incomes in Crimea do not exceed national averages. Economic diversification into higher value-added activities within agriculture and services sectors, or into industry, would help to ensure access to more stable livelihoods for Crimeans.

### *Ukraine's Labor Sector*

This section describes the four dimensions—the legal foundation, government institutions, organizations, and markets—that underpin Ukraine's labor sector, as observed during the team's assessment.

While Ukraine's **labor laws**, as written, are very protective of worker rights and generally supportive of union activity, the enforcement of the legal framework has left a pronounced gap between law and practice. There is almost universal agreement that the law is honored more in the breach than in the observance. Work remains to be done to replace the much amended 1971 Labor Code with a more updated version that reflects Ukraine's political evolution in the post-Soviet era. However, a focus on the legal framework that undergirds the labor sector is not in itself likely to yield results without also addressing some of the more fundamental constraints in regards to government institutions and labor organizations. As the country faces strains from both the external global economy and from internal demographics, the regulation of the labor market will become even more important as established social safety nets, such as the pension system, fray.

Ukraine's **government institutions** have been weakened by the chronic, low-level crisis that has been a constant feature of political life in Ukraine since the Orange Revolution. As a result, political leaders over the last several years have focused more attention on politics than on governance. For the most part, government institutions in Ukraine are not deeply concerned or involved with labor issues. The judicial system is universally viewed as lacking credibility and corrupt. Workers rarely use the courts to resolve labor cases (with the exception of dismissals), viewing the courts as biased toward employers and fearing that they could be blacklisted from employment for suing their employer. Instead workers rely on ad hoc solutions to compensate for an unreliable court system and a weak patronage system.

Government institutions treat non-union workers and workers in the informal economy with benign neglect. However, the Ministry of Labor and Social Policy does occupy a critical conjuncture in the modern political economy of Ukraine. Its deteriorating social safety net is called on to provide social protection for those most adversely affected by the global financial crisis. This most likely will exert pressures for the government to establish a new labor paradigm, of which the three-pillar pension system being developed will be a key element. The most pronounced exception to the lackluster performance of government institutions is the State Employment Service within the Ministry of Labor and Social Policy, which uses modern technology and counseling methods to assist those who seek job leads, employment counseling, and business start-up advice.

Ukraine's **labor organizations** landscape is characterized principally by three trade union confederations (there are approximately 25 in all), including 1) the FPU, the successor to the Soviet-era unions, with an estimated membership of eight to ten million workers; 2) the KVPU, the most influential of the independent confederations, with 240-270,000 members; and 3) the All Ukrainian Worker Solidarity (VOST), with an estimated membership of 70-135,000. Despite differences in ideology and outlook, common ground exists among the various unions with regard to the major issues confronting their membership: low wages and wages arrears; ineffective social dialogue; unsafe working conditions; anti-union discrimination; and non-enforcement of labor law. A new concern created by the current financial crisis is the problem of worker lay-offs, and the use of reduced workweeks and unpaid leave as a means of dealing with the layoff problem.

On the employer side, 13 associations exist, the oldest and largest of which is the Federation of Employers of Ukraine. While labor unions have a long history in Ukraine, employer unions are one of the newest actors in the labor sector. Key issues for employer associations include some issues over which employers have differences with workers that need to be negotiated, such as wages. There are also numerous issues in whose resolution both workers and employers have mutual interests, including general agreements, social insurance, a revised labor code, business and competitiveness, public-private partnerships, research on the labor market, and training to improve worker qualifications.

Civil society organizations (CSOs) in Ukraine by all accounts have gained a voice in Ukrainian society. A number of local non-governmental organization (NGOs) address workforce development, gender discrimination, and trafficking issues, yet few, if any, address labor rights issues in Ukraine. Few links exist between various labor unions and other NGOs.

Labor unions in Ukraine share some weaknesses. They appear to have little influence on government policy, as neither union has a real sense of how to engage in political advocacy or the importance of lobbying for labor issues. Secondly, both FPU and KVPU possess a relatively narrow vision of their purpose, limiting their focus to bread and butter issues of their membership. Neither union was concerned, for instance, with problems faced by workers in the informal sector, or by non-union workers, with no appreciation for the responsibility to advocate on behalf of workers in general. This narrowness of vision also results in limited collaboration with other CSOs. In short, despite the fact that the principal labor organizations have strong membership bases, the unions have not yet succeeded in leveraging their strength into effective influence over public policy-making.

Among the notable strengths in Ukraine's **labor market** are the reasonably high levels of education of the Ukrainian workforce, the diversified and rather industrialized economy that offers a panoply of career options to youth, proximity to the Russian and European markets that allows for facile out-migration if demand in the domestic labor market is weak, a rather modern active labor market program run by the Public Employment Service to provide services to the unemployed, and a commitment of authorities to maintain minimum wages at or above subsistence levels. The recent fall in the value of the hryvnia should help to accentuate the competitiveness of Ukraine's labor costs.

However, among the labor market weaknesses we note that growth in the small- and medium-sized enterprises (SME) sector—and thus in employment by SMEs, which is typically a vibrant creator of jobs in more established market economies—is still sluggish due to stalled progress on business environment reforms. However, since the writing of this assessment, there has been a transition of government to one that is determined to end the Orange era of political stalemate and proceed quickly with long overdue reform. This is thus yet another potentially fruitful area for collaboration between business and labor in advocating for reform. The persistence of an “informal formal” employment sector in which formally employed workers are still partially compensated with envelope wages and thus whose rights and wages are not fully protected is troublesome. The lack of communication between the education and training sector, on the one hand, and employers, on the other, whether through workforce councils or the creation of competency frameworks by occupation or other workforce development programs, coupled with the

limited transmission of wage signals to new job seekers, means that youth/students continue to target unrealistic career aspirations and neglect to invest in technical and vocational skills acquisition.

Another weakness is the disconnect between productivity and wage levels. Because of traditionally high unionization and collective bargaining coverage in industry and a centralized approach to wage determination, employers have been forced to increase wages without considering productivity indicators. SMEs, whose interests are usually not taken into account during bargaining processes at the national and sectoral levels, seem to be disproportionately hit by the cost of labor rising ahead of productivity gains.

Perhaps one of the most significant weaknesses of Ukraine's labor market is the growing gap between social security mechanisms, most notably pensions, and the numbers of workers needed to support such entitlement programs. Already, the non-wage labor costs such as the pension system have distorted the wage structure by driving formal remuneration rates downwards. This situation will increase pressures for reform, increasing the potential for labor to increase its ability to advocate through the political process.

### ***The Role of the Labor Sector in Overarching Development Themes***

Engaging in labor issues cross-sectorally, i.e. by integrating legal, political, social and economic dimensions, can improve the efficacy of strategic approaches to United States Government (USG) programming. The three largest areas of the USG program in Ukraine cover peace and security, governing justly and democratically, and promoting broad-based economic growth.

***Peace and Security:*** Ukraine is not *prima facie* a first-tier security concern for the US. However, in a less apparent, but not insignificant, way, the future of Ukraine has substantial bearing on broader US security interests. The 2008 war between Russia and Georgia heightened Ukraine's strategic interest to the US, while the increased Russian presence in the ARC following the war with Georgia has raised concerns of further Russian efforts to incorporate it into its sphere of influence.

Labor issues have an indirect impact on peace and security issues in Ukraine. A Ukrainian workforce that is more fairly compensated and represented will likely bring greater stability and prosperity to Ukraine, as well as reduce incentives to out-migrate and vulnerabilities to trafficking. Better representation and protection for workers, not just legally, but in practice as well, will be necessary for greater integration of Ukraine into Euro-Atlantic institutions, which will improve Ukraine's overall security. As the economic crisis worsens it is possible, but far from certain, that there will be greater unrest, including from underpaid, underemployed, and unemployed workers in Ukraine. Creating avenues for these people to raise their concerns and articulate their needs will be important should this unrest intensify.

***Governing Justly and Democratically:*** Programs that help develop issue and advocacy based links between political parties and labor unions, as well as those that help parties develop platforms on labor sector issues and link those platforms to both policymaking in the *Rada* and party development outside of the legislature, can ground democracy and governance work and contribute to the development of a more responsive and issues-oriented political party system. Labor programming can thus be used to both strengthen the representation of labor in the political process in addition to improving the labor enabling environment itself.

Another way that labor sector programming intersects and contributes to the overarching goal of Governing Justly and Democratically is in regards to civil society development. The findings of this assessment indicate significant political space for civil society activism, including by independent trade unions. As with the political process, labor sector programming can also contribute to the enhancement of civil society's ability to advocate on behalf of labor rights. Such potential is particularly pronounced when it comes to pursuing interests that are common to both labor and business associations. Labor programming could also contribute to improved executive and judicial branch operations, as the capacity of unions to advocate for more responsive and balanced service from the Ministry of Labor and the courts is strengthened.

***Economic Growth (EG):*** Labor is the oft-overlooked factor of production within EG programs. Yet lessons drawn from around the globe suggest that failure to incorporate an explicit labor focus into EG programs can jeopardize the accomplishment of EG goals. Myriad examples can be found that indicate ways in which addressing labor sector issues can contribute not only to labor sector goals in their own right, but also make critical contributions to broader EG objectives.

Sometimes the stove-piped nature of development and diplomacy objectives inadvertently pits one priority against another. In some instances, the fact of limited resources encourages an “either/or” mentality: should we design programs that focus on labor rights “or” economic growth, work with civil society organizations “or” trade unions? Sometimes these tensions have real, unintended consequences: unions’ push for higher wages may unintentionally lead to employment reductions or investments in capital- rather than labor-intensive methods of production. On the other hand, sometimes the highlighting of tensions can also help to identify areas of synergy within and among labor-related and political and economic objectives. In other cases, programs may wish to consider not only direct support for labor organizations, but also how to work through labor-related organizations in other Democracy and Governance (DG) and EG areas in a way that indirectly supports (and thus strengthens) them.

An important tension to be noted in Ukraine is the need to balance the fragility of Ukraine’s current political system against the unknown risk associated with strengthening new political variables, such as labor or private sector business. Given the extreme fragility of the Ukrainian political system, the introduction or highlighting of more cleavages, even rational sounding economic ones like labor- and business-related issues, could—instead of giving voice to important issues—simply be the final stress that tears the political system apart.

### ***Strategic Considerations***

Identifying strategic considerations for future programming in Ukraine requires an overview of the USG program over the past five years. Approximately 40% of the USG program in Ukraine is spent on peace and security activities, 25% on governing justly and democratically programs, and 20% for economic growth. Most of the remaining budget is allocated to health programs. In addition, the USG’s Millennium Challenge Corporation (MCC) has funded a \$45 million, two-year Threshold program in Ukraine since 2006, focused largely on reducing “corruption through civil society monitoring and advocacy, judicial reform, increased government monitoring and enforcement of ethical and administrative standards, streamlining and enforcing regulations, and higher education testing.”

**Integrating Labor Sector Actors Directly into Rule of Law, Political Competition, and Civil Society Programs.** More focus on a range of labor sector issues and programming can significantly contribute to achieving USAID’s democracy and governance objectives in Ukraine. Many labor-related policies, whether they are concerned with crafting a new labor law, improving the skill match between workers and employers, ensuring a climate where the freedoms necessary for workers to organize exist, or increasing protections for workers, are closely related to broader goals of democracy and governance. In particular, labor sector programming can improve the rule of law and human rights through the passage of a new labor law, provided it is supported by improved monitoring and enforcement mechanisms. Good governance will be furthered by better enforcement of existing labor codes and through deliberative bodies that are more responsive to labor constituencies. Political competition is an area that could be significantly enhanced by improved labor union lobbying of political parties. Programming in the labor sector also offers immediate and direct benefits to the development of a more vibrant and engaged civil society.

One of the principal goals of democracy assistance is to increase the ways in which ordinary people participate in politics, and increase the impact of that participation. By placing a stronger emphasis on labor sector policies through democracy and participation, policymakers will be encouraged to engage in more open public dialogue on labor issues. By incorporating concrete wage, occupational safety, and

other issues into democracy and governance, labor sector programming, if done well, will demonstrate to ordinary people that democracy is not just a platitude but that it can have an effect on their lives.

A key element of successful democracy and governance work is linking capacity-building projects, whether with CSOs, legislatures, or political parties, to issues of real import to voters, activists, Members of Parliament (MPs), or parties. Labor sector issues can be an important component of this. For example, a legislative strengthening project could organize a series of fora and workshops to discuss proposed drafts of a new labor law. These could include workshops with MPs and labor law experts, union leaders, representatives of employers, and the like, as well as public events where ordinary citizens, and workers, could have some input on the new law.

Similarly there are CSOs which currently focus on various aspects of labor including trafficking, migrant workers, and young workers. However, there are large areas of the labor sector which do not seem to be addressed by major CSOs. Examples of this include organizations that advocate for and seek to represent unorganized workers in the informal sector or older workers who may be past the mandatory retirement age but still be in the workforce, as well as organizations, other than unions, that seek to advocate for workplace safety, living wages, and other labor-related issues.

Efforts to support CSOs addressing these issues would contribute to a depth and vibrancy to Ukrainian civil society that would bolster democracy and governance programs. If CSOs were seen as advocating for critical workplace issues, about which ordinary Ukrainians care a great deal, it would help Ukrainians get a stronger sense of why democracy is important and how it can be effective and help improve the perception of civil society in Ukraine.

Currently, the trade union movement possesses too narrow a view of its role. Negotiating on behalf of members in the workplace is obviously one aspect of a union's role, but not the sole function. Beyond the representational role are the communicative, political, stewardship, protest, collaborative, and economic functions.

**Strengthening Labor and Workforce Development Initiatives in Local Economic Development Programs.** Local economic competitiveness involves multiple variables, among which are several labor sector issues. A competitive export sector, for instance, needs collaborative, rather than confrontational, labor relations in order to keep the production lines moving. Verifiable and transparent information confirming compliance with core labor standards gives assurances to international buyers that their sourcing partners will not appear in condemning news reports about working conditions. And workers whose labor rights are respected, whose working conditions are decent, and who receive wage incentives commensurate with productivity will work harder than those who work under adverse conditions.

Another labor sector dimension to competitiveness revolves around skills and training. Skills upgrading and preparing the future workforce for tomorrow's jobs are key to advancing Ukraine's economy, coupled with creating jobs, of course. Stories of labor market disequilibria abound in Ukraine: youth who decline to pursue vocational training, students who flood into law and economics rather than pursue science and technology careers, employers who are unable to recruit appropriately trained workers, and the like. Some of these seeming disequilibria are due to the fact that Ukraine is embedded within a regional labor market that, at least until the fourth quarter of 2008, drew labor out of Ukraine into higher paying labor markets in nearby countries.

USAID could strengthen integration of labor sector issues into its competitiveness and local economic development programs, encouraging local level dialogue between local business associations and labor unions to encourage both increased productivity/competitiveness and respect for labor rights. Economic and financial literacy of unions, associations, and their members benefits society broadly – credit, home purchases, profitability of enterprises, etc. In addition, industry-specific employer groups should be supported to signal to education and training institutions, and the youth, students, and mid-career adults

who attend them, what skills they seek, and what levels of compensation they are willing to pay in order to successfully recruit the workforce they need.

Examples of workforce development initiatives that may be successful include:

- Preparation of occupational reference materials, such as competency frameworks that indicate tasks, responsibilities, and skills required at various levels of employment in a firm;
- Collaboration with faculty on degree program and curriculum designs that will produce skilled, recruitable graduates;
- Organization of informational tours, internships, summer employment programs, and career fairs to give youth, students, and mid-career job seekers insights into possible career paths;
- Improve the dissemination of information about the job market. This could involve programs that could use such entry points as the Public Employment Service and media, Internet, and Web 2.0 outlets; and
- Increase education and training opportunities for vulnerable groups at risk of labor migration and labor trafficking.

Programs that integrate more explicit consideration of labor and workforce development issues as part of local economic development can help to ensure that all conditions for growth are being met. In addition, integration of labor and workforce development issues could mitigate increases in trafficking-in-persons, in particular in light of the global economic crisis.

**Supporting Pension Reform Strengthens Labor Markets and Growth.** In addition to strengthening financial sector stability, continued support for pension reform is important because of the positive repercussions thereof on labor markets and economic growth. When workers believe that their payroll deductions will accrue in pension accounts that will help to support them in the event of unforeseen risks or after they retire from the workforce, they have an incentive to seek employment in the formal sector. This, in turn, augments the income tax base for the country and improves the state's ability to expand its programs.

In addition, pension reform not only aims to allow the elderly to retire with dignity, but in helping workers to manage risks and save for retirement, it frees them somewhat during their working years to invest in other assets, such as housing or education or entrepreneurship, that they might not otherwise be able to afford. This, too, contributes to improved prospects for economic growth.

**Final Considerations.** Given finite resources and the scope of issues to be tackled, care should be taken to avoid duplication of efforts. Ukraine is currently working toward inclusion in the EU Neighborhood Policy as well as being engaged in negotiations to establish a free trade area with the EU. In determining specific programs to support, it would therefore be advantageous to be cognizant of the work already being done, or planned, by the EU.

USG support for labor programs to date has laid an important groundwork for achieving a well-functioning labor sector in Ukraine. Conditions in Ukraine today are particularly propitious to make further progress and reap the benefits of that groundwork now. With regard to external considerations, Ukraine's interest in negotiating free trade and association agreements with the EU should heighten the country's sensitivity to labor issues, since the EU's commitment to human rights, including core labor standards, is a focus of such negotiations (EU 2001). Within Ukraine, government repression of, and interference with, trade unions has lessened under the Yushchenko administration, compared with the previous administration. The KVPU, with increased membership and institutional stability, is now a more significant social partner. Finally, in the current evolving political landscape, there is an opportunity to

reform the FPU from its organization as a Soviet-legacy trade union to a union that is less dependent on government political control and more responsive to its membership.



# 1.0 INTRODUCTION

## 1.1 WHY LABOR AND THE LABOR SECTOR?

The term “labor” means different things to different observers. It may refer to people who work or the human activity that produces goods and services in an economy. As a grouping of people, the term generally refers to worker organizations that represent workers’ interests collectively and individually and have workers as their members. “Labor” may act to achieve specific short-term goals, such as ending addressing workplace conditions, or large-scale, long-term goals, such as bringing about social and political change. Thus, depending on one’s vantage, the term may refer to specific industrial relationships between employers and unions or it may be interpreted more broadly to refer to all those who strive to earn a living, whether formally or informally employed, self-employed, unemployed, or out of the workforce. At the broadest level, the term can simply mean all workers.

This paper, and the larger project it introduces, deals with all of these definitions and issues through a focus on the “labor sector” and the role it plays in development. The labor sector is the arena in which youth as well as adult men and women prepare for and participate in the world of work. *A focus on the labor sector matters because of its impact on people’s abilities to find decent work, realize sustainable livelihoods, and raise themselves and their families out of poverty.*

The world of work is understood here in its broadest context, encompassing people engaged in agriculture, industry, and service sectors, whether formally employed, and thus protected under the law, or informally engaged in making a living. People work on- and off-farm, in rural and urban areas, in their own countries or abroad. They may toil in legal or illegal activities. They may be working voluntarily or, in the case of trafficked persons, against their will. Given the uneven access to power, economic resources, and political decision-making that frequently characterizes the position of workers and compromises their ability, individually and collectively, to access their rights, free and democratic labor unions can provide workers with a crucial voice in their places of work, in the industries in which they play a role, and in national decision-making as well.

As addressed in this paper, therefore, the “labor sector” is defined as the aggregate of labor rights, regulations, actors, and institutions that shape labor relations<sup>1</sup> and the functioning of labor markets, both formal and informal.

The U.S. government’s (USG) current and primary foreign affairs goal is to “help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty, and conduct themselves responsibly in the international system” (U.S. Department of State 2007).<sup>2</sup> This project focuses explicitly on labor and the labor sector because full consideration of diplomacy and development issues in the labor sector can be critical to building well-governed, democratic states able to respond to their citizen’s needs. The 2000 Report of the Advisory Committee on Labor Diplomacy to the Secretary of State and the President declared that “[p]romoting core worker rights is central to the basic

---

<sup>1</sup> Labor relations may be viewed generally as the relationship between workers and employers or more specifically “as a system for striking a balance between the employment relationship goals of efficiency, equity, and voice, and between the rights of labor and management” (Budd 2008, vii).

<sup>2</sup> The Obama Administration is finalizing its strategic reviews of foreign policy, including development. The results of the Presidential Study Directive on Global Development and the State Department’s Quadrennial Diplomacy and Development Review are expected to be released in September 2010.

purpose of U.S. foreign policy, which is to create a more secure, prosperous and democratic world....” (State 2000).

The sources of authority related to the goals and roles of the labor sector in U.S. development and foreign policy may be found in U.S. framework legislation, such as the Foreign Assistance Act (as amended), targeted U.S. legislation such as the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II Act), unilateral trade preferences and bi- or multilateral trade agreements with labor provisions, and USG policy as determined by the President’s Administration and long-standing USG principles and objectives.<sup>3</sup>

Just as a focus on the labor sector can help achieve foreign assistance goals, neglecting to address this sector has implications as well. For example, failure to address labor sector issues and correct asymmetrical access to resources may increase a country’s vulnerability to social and political dislocations that can adversely affect democracy, stability, and/or economic growth. A country that cannot offer the prospect of employment to its labor force may leave itself open to the destabilizing pressures that can arise from unemployed and disaffected adults and youth. A country that cannot assure working conditions compliant with international standards or cannot provide stable labor relations may make itself less attractive to foreign investment. And a country that does not provide appropriate knowledge and skills to its workforce through education and training may risk weak productivity and thus threaten its competitiveness on the global market. These factors in turn can also exacerbate a downward economic spiral. In such a scenario, investment may be discouraged, making it harder for local businesses to connect to international management techniques, modern technologies, and new markets. Formal sector growth can be stymied. People may look outside the legitimate sectors of the economy for new livelihood opportunities. The net result of these factors may be an increased reliance of the citizenry on public social entitlement programs, such as social security and health programs. This in turn places huge burdens on the public treasury, straining the government’s ability to provide for the basic needs of its people. At the same time, the downward spiral may affect prospects for democratic growth as well. Labor force participants whose rights are not protected by the country’s laws and institutions and who do not have an effective voice in advocating for legislative action or influencing government policy may lose faith in their governments, which in turn may lead to political and societal conflict.

A focus on the interests of labor, as represented by trade unions and other labor sector organizations, and business, as represented by employer or business associations, by developing country policymakers and the development organizations that work with them is therefore essential to address people’s rights and their needs to earn a decent living in support of themselves and their families. It is also important to the development of accountable political systems that respond to citizens’ concerns and interests, democratic multi-party systems that are interest-based, rather than based on personalities and patronage, and more vibrant civil societies. As people believe that their rights are respected, their voices are heard, and their access to education and livelihoods is improved, their commitment to their communities and nations is strengthened. Addressing these issues also builds human capacity in crucial areas such as negotiation and leadership accountability, which in turn contributes to the peaceful resolution of differences and disputes in labor and industrial relations and can provide critical incentives for more transparent governance.

The USG supports international labor sector programming in pursuit of development and diplomacy objectives, primarily through the U.S. Agency for International Development (USAID), the U.S. Department of State’s Bureau of Democracy, Human Rights, and Labor (DRL), and the U.S. Department of Labor’s (USDOL) International Labor Affairs Bureau (ILAB).<sup>4</sup> USG programming has aimed at:

---

<sup>3</sup> See also, for example, testimony provided by USG officials to Congress (e.g., Posner 2010, Polaski 2010, Reichle 2010).

<sup>4</sup> Drawn from mission statements found on websites for the State Department’s Director of U.S. Foreign Assistance and its Office of International Labor and Corporate Social Responsibility and the Department of Labor’s ILAB.

- Affirming, and supporting the enforcement of, international labor rights;
- Combating child labor, forced labor, and human trafficking;
- Strengthening the capacity of institutions, governmental and extra-governmental, to administer effective programs in support of the labor sector;
- Promoting freedom of association, including the role of organized labor, building the capacity of free and independent labor unions around the globe to advocate effectively on behalf of their members for their rights and decent conditions of work;
- Engaging with civil society organizations to advocate regarding issues of concern to labor;
- Working with the private sector to protect human rights, including labor rights;
- Creating an international economic system that shares the benefits of increased economic growth and security with all workers; and
- Promoting economic growth with an enabling environment that encourages job formation, strengthens industrial relations between employers and unions, and addresses the needs of the workforce alongside the needs of employers to improve the competitiveness of firms, industries, and sectors, encourage growth, raise productivity, and stimulate wages and employment.

The USG’s use of labor diplomacy has helped ensure more coordinated support between development and foreign policy goals. For example, the USTR has negotiated increasingly detailed labor provisions into trade agreements and, at times, the governments of developing countries respond with requests for technical assistance to better meet these obligations. The U.S. Department of State and the Department of Labor both provide technical assistance and act in the realm of labor diplomacy. Discussions on whether and what kinds of assistance the USG may provide to a country may be concurrent with a review of its compliance with labor rights provisions in trade agreements or beneficiary criteria for unilateral trade preference programs. This extension of assistance often has greater foreign policy implications in post-conflict and politically and economically unstable countries. Labor diplomacy may bring together developed and developing countries, as happened in April 2010 when USDOL hosted the first-ever meeting of labor and employment ministers from the world’s 20 largest economies.<sup>5</sup> The Department of State’s Special Representative for International Labor Affairs also plays an important role in labor diplomacy.

## 1.2 OVERVIEW OF GLOBAL LABOR SECTOR ANALYTIC INITIATIVE

In 2007, the U.S. Agency for International Development’s Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), in cooperation with the U.S. Department of State’s Bureau of Democracy, Human Rights, and Labor (DRL), were tasked with establishing how programs in the labor sector can best contribute to foreign assistance objectives. The aims of this paper are: 1) to present an innovative conceptual framework that unites democracy and governance and economic perspectives on the labor sector, 2) to explore how addressing issues in the labor sector (as defined above) can help achieve USG strategic goals in international development and foreign policy, and 3) to explore how addressing labor sector goals helps countries to achieve their overarching development objectives.

Viewing the labor sector as an integrated system brings several additional benefits. A systems analysis underscores how a properly functioning labor sector is important to the development of a liberal democracy and favorable to market-driven economic growth, consistent with human rights and labor rights. Moreover, it

---

<sup>5</sup> Described in detail at [http://www.dol.gov/ilab/media/events/G20\\_MinistersMeeting/](http://www.dol.gov/ilab/media/events/G20_MinistersMeeting/).

is suggested that using that lens to identify programming options may actually be a *more effective strategy* for achieving those goals than focusing exclusively on a single, stove-piped component. Working with labor unions and business and employers associations, communicating social and political messages through such labor organizations, and strategizing economic growth by focusing on employment levels and conditions may provide valuable traction to achieve long-term development goals. In addition, working with labor unions may allow closer proximity to the poor, broader coverage, and more comprehensive and equitable program outreach.

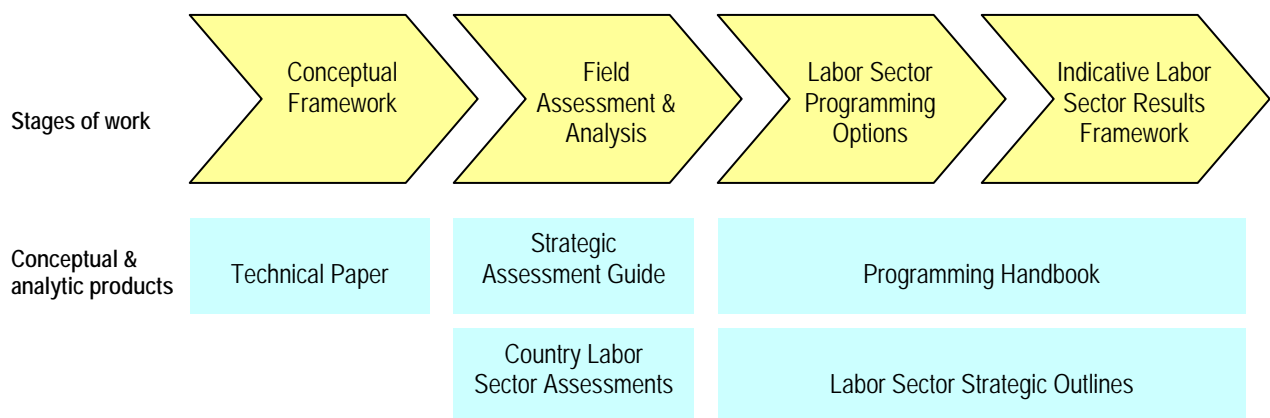
Labor diplomacy and development programs are implemented by USG agencies, international organizations, and implementing partners. Other programs managed by these three sets of actors may also affect the labor sector. To date, USG labor sector programs have generally addressed objectives in four main areas: labor rights, labor markets, and the roles of labor sector government institutions and civil society organizations in promoting foreign assistance goals. The USG has promoted labor rights as a key set of rights on their own and as a means of lending support to the advancement of all human rights.

The Global Labor Sector Analytic Initiative addresses the following questions:

- What is a “labor sector”?
- Who are the key actors in a labor sector, and what are the relationships among them?
- In what various ways are labor sectors structured around the globe and how do they behave?
- What performance standards would one expect to see in a “well-functioning” labor sector?
- How does the labor sector’s performance affect political, economic, and social development?
- How can various kinds of labor sector programs contribute not only to improved labor sector performance, but also broader diplomacy and development goals of the United States government (USG)?
- What results does labor sector programming seek to achieve and what data should we collect to evaluate progress toward such achievement?

The stages of work and corresponding conceptual and analytic products of the Initiative are depicted in the figure below.

**FIGURE 1: GLOBAL LABOR SECTOR ANALYTIC INITIATIVE**



This **Technical Paper** suggests that:

- 1) the labor sector – that is, the legal foundation, government, social partners<sup>6</sup> and civil society, and labor markets, understood individually, overlapping, and intersecting with each other, as depicted below in Figure 2 – is a *multidimensional system* that requires multiple and integrated interventions to achieve diplomacy and development goals;
- 2) using this systemic approach offers *multiple utility*, as a means both to promote labor rights and trade unions and other labor sector organizations for their own sake and to increase the effectiveness of programs that seek to achieve a diverse set of USG foreign assistance goals;
- 3) labor sector issues are of *integral importance* to achieving progress in major foreign policy objectives, including respect for the rule of law (ROL) and human rights, promotion of democracy, and economic growth and prosperity; and
- 4) broad *political economy considerations* are an essential context for understanding how to address stability, rule of law, participation, livelihood, and social protection concerns.

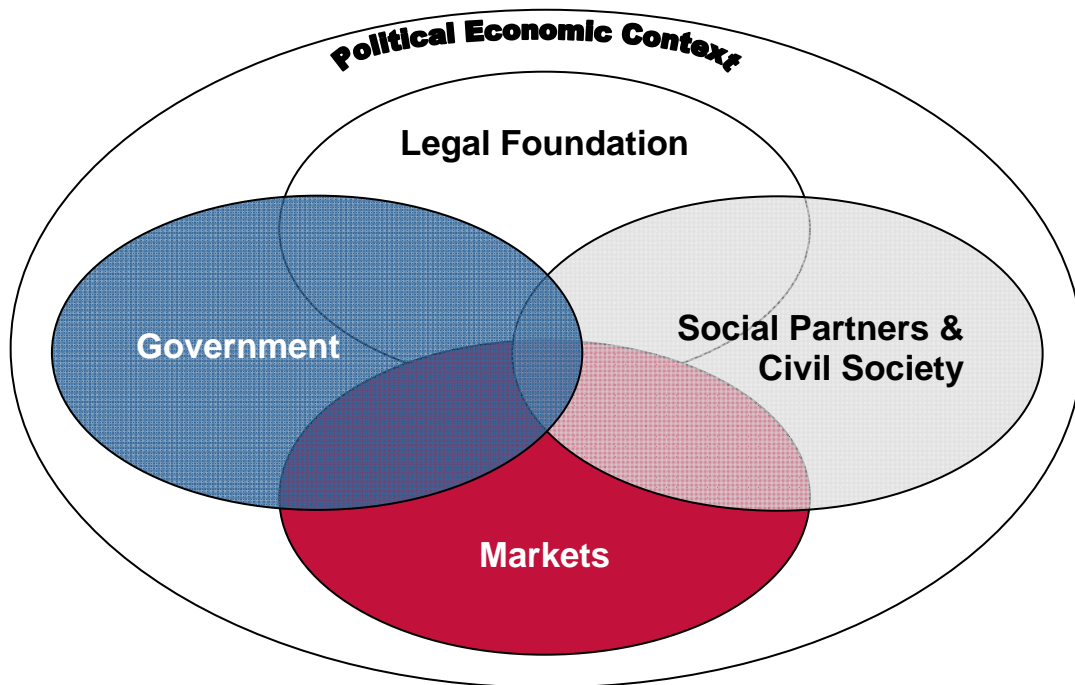
In addition to this Technical Paper, the suite of labor sector analytic products includes:

- A **strategic assessment guide** detailing how to approach the organization and implementation of continuing labor sector assessments in the field (Salinger and Wheeler 2009b). This how-to manual:
  - provides a checklist of information that the assessment team seeks to collect in the field,
  - outlines how to carry out an integrated labor sector analysis to identify strengths and weaknesses of a country’s current labor sector,
  - ties these considerations to the achievement of broad development goals in the country, and
  - recommends strategic considerations for achieving U.S. foreign assistance objectives for that country.

---

<sup>6</sup> The term “social partners” refers to both workers’ organizations and employers’ organizations, both of which cooperate with governments in social dialogues.

**FIGURE 2: FOUR COMPONENTS OF A WELL-FUNCTIONING LABOR SECTOR**



- A **labor sector programming handbook** with suggestions for labor sector program design or ways to include labor considerations in broader democracy or economic growth programming and a proposed structure for the accompanying results framework used by USAID to monitor programs.
- A pilot **labor sector assessment** testing the conceptual framework, conducted in Cambodia (Lerner, Salinger, and Wheeler 2008).
- **Country labor sector assessments** (CoLSAs), carried out in four of the five regions in which USAID programs are active:
  - Asia and Near East: Bangladesh (Kolben and Penh 2009)
  - Europe and Eurasia: Ukraine (Fick et al. 2009a)
  - Latin America and the Caribbean: Honduras (Cornell et al. 2009)
  - Sub-Saharan Africa: Nigeria (Thomas et al. 2009)
- **Labor sector strategic outlines** (LaSSOs), representing a more rapid and resource-efficient approach to field assessment and preparation of a template for a labor sector Results Framework, have been conducted in the following countries:
  - Georgia (Fick et al. 2009b)
  - Mexico (Bensusan and Burgess 2009)
  - South Africa (Kalula and Sukthankar 2010)

Findings from this body of work have been presented at a series of public Labor Forums for discussion with USG partners, including representatives from the USG's National Endowment for Democracy collaborating institutions, international organizations that support labor sector programs, non-

governmental organizations and research institutions that work in the labor sector, and development consulting firms that implement labor sector programs.

### **1.3 ORGANIZATION OF THE UKRAINE LABOR SECTOR ASSESSMENT**

The Ukraine Labor Sector Assessment was the fourth CoLSA conducted under Phase II of the analytical work done on the labor sector, utilizing the assessment framework elaborated during Phase I. The field work for the Ukraine Labor Sector Assessment was carried out from December 2-19, 2008. Its purpose was to better understand the nexus of labor rights, organizations, markets, and institutions that exist and identify strategic approaches and opportunities for labor-related programming that may also help the USAID mission in Ukraine achieve strategic goals in other objective areas. The assessment team met with representatives of the USG mission, labor unions, workers in the transportation and coal mining sectors, Ukrainian and foreign business sectors, the Ministry of Labor and Social Policy, other government agencies and civil society organizations that address women's employment, labor lawyers, workforce development organizations, private think tanks, and individual experts. Short visits were made to Donetsk, a heavily industrialized *oblast* in Ukraine's west; Lviv, the largest urban center in Ukraine's much poorer east; and Simferopol, the capital of the Autonomous Republic of Crimea.

This report summarizes the Ukraine Labor Sector Assessment team's findings and analysis. Section 2 presents an overview of the economic, political, and historical contexts in which Ukraine's labor sector is situated. Section 3 analyses Ukraine's labor sector in terms of its legal foundation, labor sector institutions and organizations, and labor markets. Section 4 analyzes the role of labor-related issues in the overarching development themes that have provided the foundation for USAID's program in Ukraine from 2003 to the present. Section 5 concludes with strategic considerations and program recommendations, highlighting opportunities for labor-related programming identified by the labor assessment team.





# 2.0 PRINCIPAL DEVELOPMENT CHALLENGES FACING UKRAINE

After a decade of wrenching adjustments in the wake of the fall of the Soviet Union and independence, followed by nearly a decade of sustained growth, Ukraine has faced several economic and political challenges in 2009.

First, Ukraine has wrestled with the consequences of an economic growth trajectory that has not been broadly based, but rather has favored the creation of an oligarch class, surrounded by a limited middle class and workers who have become increasingly vulnerable in light of the global economic crisis. Second, it is contending with the effects of severe depopulation on its labor force and on the ability to generate resources to support a rapidly aging generation of pensioners. Third, having committed itself to external economic orientation through the launching in February 2008 of negotiations with the EU of an Association Agreement and accession in May 2008 to the WTO, Ukraine must establish economic, political, and education and training systems that will enable Ukrainians to take advantage of new trade and investment opportunities and cope with competition from regional and global trade and investors. Finally, as Ukrainians have become increasingly disenchanted with national political stalemates and regional political/economic feuds with negative consequences for Ukrainians, the country must find a way to make the political process more responsive to the needs of a broader cross-section of the population.

Since the original writing of this assessment in December 2008, there has indeed been a period of profound political readjustment. While the jury remains out on how far the Party of Regions government will be able to go with unpopular elements of reform, such as reducing the pension burden on public spending, it is clear that the pace of change has been accelerating. However, this increased pace of change does not initially seem to include more rapid integration into “western” organizations.

**FIGURE 3: MAP OF UKRAINE**



Source: Wikipedia.

## 2.1 ECONOMIC GROWTH TRAJECTORY AND BUSINESS ENVIRONMENT

Ukraine’s transition from Soviet rule led to almost a decade of continuous economic decline. Between 1990 and 1999, when the transition depression bottomed out, official real gross domestic product (GDP) fell to about 40% of its pre-transition level. However, employment fell only by 20%. As a consequence, open unemployment was rather low<sup>7</sup> and labor turnover appeared to be considerably lower than in other transition countries.

**Table 1: Comparative Economic Statistics**

	Population (millions, 2007)	Population growth, % 2003-07	Per capita GNI, Atlas Method (Current \$ 2007)	GDP growth, % 2003-07	GDP growth, % 2008
Ukraine	46.4	-0.8	2550	7.8	2.1
Bulgaria	7.6	-0.6	4590	6.1	6.0
Poland	38.1	-0.1	9840	5.1	4.8
Russia	141.6	-0.5	7560	7.3	7.3

(2007 figures)	Agriculture		Industry		Services	
	% GDP	% LF	% GDP	%LF	%GDP	%LF
Ukraine	7.4	16.7	32.1	24.2	60.6	58.2
Bulgaria	8.1	9.7	32.7	33.1	59.2	57.1
Poland	4.3	19.3	29.9	28.6	65.9	52.0
Russia	4.8	10.2	38.6	29.8	56.7	60.0

Source: World Bank, World Development Indicators

<sup>7</sup> Maximum unemployment indicators were in 1999-2000: registered UR - 4.5% working-able WAP in the first quarter of 2000, UR according to ILO methodology (15-70 years) – 11.6% in 1999-2000.

*Notes: Labor force participation by sector drawn from Bolnick et al. (2008); Ukraine (2006), Bulgaria (2004), Poland (2002), Russia (2005); Official Ukrainian statistics for labor force participation by sector in 2007 indicate 19% in industry, 4.9% in construction, and 59.4% in services.*

Yet from 2000 to 2008, Ukraine distinguished itself from some of its counterparts of the former Soviet Union through impressive performance after its prolonged and severe transition depression. The Ukrainian economy, in recent years, has been one of the strongest, and most balanced, of the post-Soviet countries, other than the Baltic countries. Generally speaking, the 15 countries of former Soviet Union can be divided into several groups with regards to post-Soviet economic growth. First are the Baltic countries of Estonia, Latvia, and Lithuania which have moved steadily towards modern European-style economies. Second are the countries which are fortunate, or perhaps unfortunate, enough to have oil or other natural resources. These countries, including Azerbaijan, Kazakhstan, Turkmenistan and, most importantly, Russia, have relied heavily on extractive industries to rebuild their economies and have encountered many of the problems associated with that model of economic development, such as growing wealth disparities and stalled, or reversed, transitions towards democracy. The remaining countries such as Kyrgyzstan, Georgia, and Armenia have struggled for almost two decades to rebuild their economies.

Ukraine does not fit neatly into any of these categories. Interestingly, unlike many other post-Soviet countries, heavy industry is still a major part of the Ukrainian economy. There is a great deal of concern in Ukraine today about how this sector will fare during the current global economic crisis, but for most of the post-Soviet period, mining, steel production, and metallurgy have been important components of the Ukrainian economy and have employed millions of people. Thus, Ukraine has benefited from a strong manufacturing sector as well as extractive industries. Additionally, Ukraine has continued to have a strong agricultural sector. Importantly for the purposes of this study, coal mining, the leading extractive industry in Ukraine, and steel and metallurgy manufacturing have historically lent themselves to a high degree of unionization.

In all years, apart from 2005 and until 2009, its economy had been growing in terms of real GDP at a very high rate: average GDP growth rate reached over 7% per year (TABLE 1). Employment was not very responsive to these output gains (so-called “jobless growth”); its annual growth rate was less than 1%. As a result, by 2007 real GDP reached 88% of its 1992 level, but total employment returned to only 85% of its 1992-level in 2007.<sup>8</sup>

---

<sup>8</sup> Source: Kupets et al. 2009, working with data from Ukraine State Statistics Committee. Note that “total employment” refers to numbers of employed, not the employment rate.

**Table 2: Comparative Development Indicators**

	Ukraine	Bulgaria	Poland	Russia
<b>Social Development</b>				
Income share, poorest 20%	9.2	8.7	7.5	6.1
Life expectancy at birth	68.0	72.4	74.5	65.5
<b>Growth Performance</b>				
Foreign direct investment, % GDP	3.8	10.8	2.1	2.0
Growth in labor productivity <sup>(1)</sup>	3.3	12.5	2.5	6.3
<b>Competitiveness</b>				
Ease of doing business ranking ( <i>DB</i> 2009, out of 181 countries)	145	45	76	120
Global competitiveness index (2008-09), ranking among 137 countries)	72	76	53	51
<b>Labor Force Participation</b>				
Female labor force participation rate (15-64)	62.2	52.5	57.8	65.9
Male labor force participation rate (15-64)	72.9	55.1	72.7	79.3
<b>Rural Sector Performance</b>				
Agriculture value-added per worker	2951	7556	1955	2526
Cereal yield (kg per hectare)	2627	4075	3241	1852

Sources: Bolnick et al. (2008), updated where possible using World Development Indicators, World Bank (2008b), World Economic Forum (2008). Ukraine's labor force participation rates from State Statistics Committee. Data years may vary between 2002 and 2007, depending on latest data available.

Note: (1) Labor productivity is measured as the ratio of real GDP to the size of the working-age population (ages 15–64).

Unfortunately, Ukraine's impressive period of economic growth in recent years may now be stalled, or more likely, reversed. The Ukrainian economy's dependence on steel exports made it particularly vulnerable to the effects of the global financial crisis of late 2008, and in October of that year the country turned to the International Monetary Fund (IMF) for an emergency line of credit. The effects of the global economic crisis in the fourth quarter are seen in annual average growth rates that abated quite strongly in Ukraine, unlike in comparator countries. By the beginning of 2009, with the economy in freefall, according to the IMF, Ukraine emerged as one of the hardest hit countries in the region, its real GDP contracting by 20% in the first quarter and its currency value in sharp decline (IMF 2009).

Ukrainian business leaders are expressing their dissatisfaction about policy and government instability, corruption, tax regulations and tax rates, rated among the top five most problematic factors for doing business (International Finance Corporation (IFC) 2007); summary rankings on ease of doing business and competitiveness are presented in TABLE 2. According to the 2007-08 Global Competitiveness Survey by the World Economic Forum, the share of business leaders who perceive the instability of the political situation and government policy as a major obstacle to their business operation has significantly increased in comparison with 2004-2005 survey results. Other important problems faced by Ukrainian businessmen are administrative barriers to doing business (including various inspections), difficult procedure of closing and restructuring businesses, and insufficient protection of property rights.

While Ukraine's post-Soviet economy has been considerably more balanced than most other post-Soviet economies, wealth accumulation in Ukraine throughout the 1990s and the first years of the 21<sup>st</sup> century has looked similar to that in the rest of the region. Ukraine's booming economy created a few extremely

wealthy oligarchs and a very small middle class while the rest of the country remained quite poor. The wealth created by Ukraine's mines and factories has not gone to make Ukraine's workers prosperous or to support the growth of a middle class. These shortcomings in regards to economic growth are particularly ominous in light of the demographic changes the country is currently undergoing and future implications for political stability.

## 2.2 HEALTH CHALLENGES AND DEMOGRAPHIC CRISIS

In addition to economic growth challenges, Ukraine is facing health challenges and an ensuing demographic crisis. Ukrainians suffer from a range of health challenges, including alcohol abuse, poor nutrition and living standards, hard working conditions, transition-driven stresses, the aftermath of Chernobyl, and a weak healthcare system. Low birth rates, high mortality rates, and recent emigration are shrinking Ukraine's population, particularly among working age males. Of note are the following:

- The total fertility rate (TFR) in Ukraine, the average number of babies born to an average woman during her life, is low and getting lower. A TFR of 2.08, known as the replacement rate, is considered necessary to maintain the current population level. At 1.32, Ukraine's TFR is one of the lowest in the world. The US TFR of 2.15 is nearly double that of Ukraine.
- In 2007 the Ukrainian death rate per 1,000 people per year was 15.8, after Russia and Afghanistan, the third highest of any non-African country; the world average was 8.8.<sup>9</sup> Adult mortality rates in Ukraine have risen between 1990 and 2000, and again between 2000 and 2006.<sup>10</sup> The main causes of mortality in Ukraine are cardiovascular disease—Ukraine's is among the world's top ten highest rates—and strokes. Ukraine is also said to be at the epicenter of Central Europe's AIDS crisis and tuberculosis infection rates are on the rise (Lekhan and Rudi 2007). Health challenges are further exacerbated by unequal access to health care services by socioeconomic group (Lekhan and Rudi 2007). A boy born in 1986 could expect to live 66.9 years; were he born today, his life expectancy would be only 62.5 years, a 7% decrease. In comparison, US male life expectancy has risen almost 5% over the same span to 74.54. In addition, the suicide rate for Ukrainian men, 42 per 100,000 of population, is among the highest in the world, according to the World Health Organization.
- Ukraine's population at the end of 2008 was 46.1 million, down from a 1992 high of 52 million, and is projected to fall to 41.7 million by 2025 and to 33.4 million by 2050.<sup>11</sup> Currently, 16% of the Ukrainian population is over the age of 65 (Figure 4), projected to rise to over 20% by 2030.<sup>12</sup> In comparison, the 65-and-over cohort represents 12.5% of the population in the United States, 13% in Poland, and 15% in Hungary.<sup>13</sup> The old-age dependency ratio in 2008 was 23.3, i.e. roughly four working-age citizens support each elderly person.<sup>14</sup> The World Bank predicts that by 2055 Ukraine's old age dependency ratio will soar five-fold, leaving each worker to support 1.42 pensioners.<sup>15</sup>

---

<sup>9</sup> Source: CIA, *World Factbook* 2006 and 2008.

<sup>10</sup> World Health Organization, Statistical Information System, accessed October 5, 2009.

<sup>11</sup> Source: United Nations, *World Mortality 2007*.

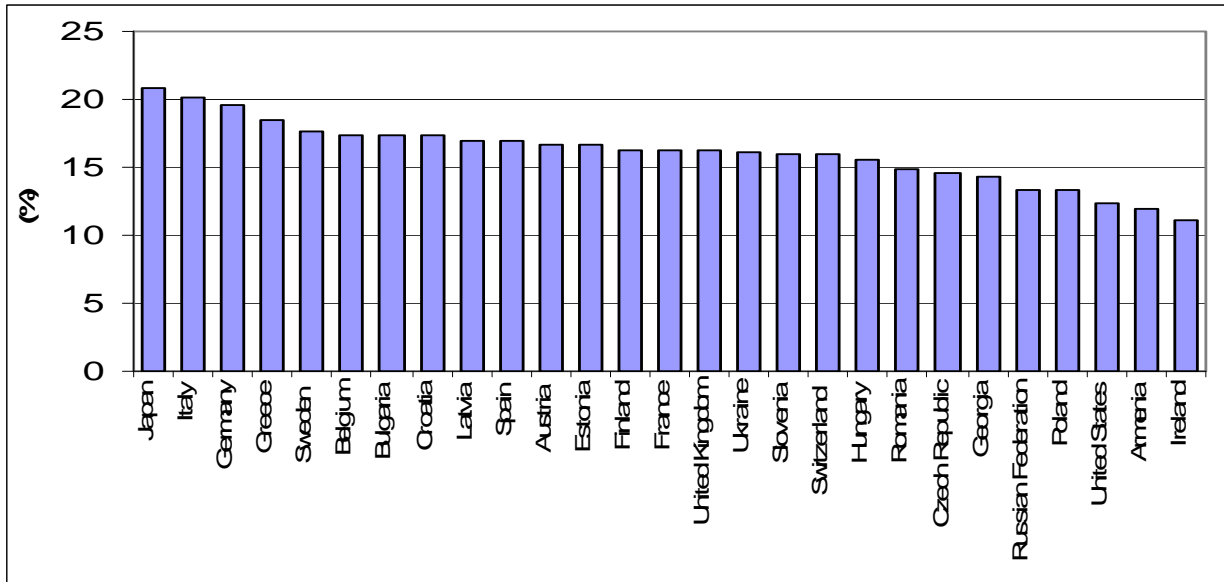
<sup>12</sup> CIA, *World Factbook*, December 2008

<sup>13</sup> CIA, *World Factbook*, August 2006

<sup>14</sup> The ratio equals the number of people 65 years old or older per 100 people between 15 and 64 years old. See <http://www.un.org/esa/population/publications/countryprofile/ukraine.pdf>

<sup>15</sup> World Bank (2006b).

**FIGURE 4: PERCENTAGE OF POPULATION AGE 65 AND OVER**



Source: World Development Indicators

- The flood of emigration from Ukraine during the 1990s appears to have ebbed. Between 1991 and 2004, the Ukrainian government counted 2.5 million individuals who emigrated; 1.9 million moved to other post-Soviet states, the other 640,000 to mainly Western countries. The number of registered emigrants slowed after 2001, and in 2005, Ukraine actually recorded a net gain from international migration. These figures do not capture seasonal or temporary economic migration of western Ukrainians working in the EU and eastern Ukrainians in Russia, often unofficially.

Ukraine's high morbidity rates likely reduce labor force participation rates, raise work time lost to illness, and negatively influence productivity. As a result of the demographic shift, Ukraine has one of Europe's fastest-aging populations, which threatens to overwhelm Ukraine's inefficient and politically-sensitive pension system. Without significant reform, this old-age dependency ratio represents a potentially insurmountable challenge for Ukraine's pension system, which is already severely financially stressed. Pension expenditures as a share of GDP are expected to reach 20% by then, up from 15.4% of GDP today, if the pension system is not reformed.<sup>16</sup> As such, postponing the planned pension reform (see Social Safety Nets, below) could create severe fiscal and social problems for Ukraine.

## 2.3 TRADE LIBERALIZATION AND ECONOMIC REORIENTATION

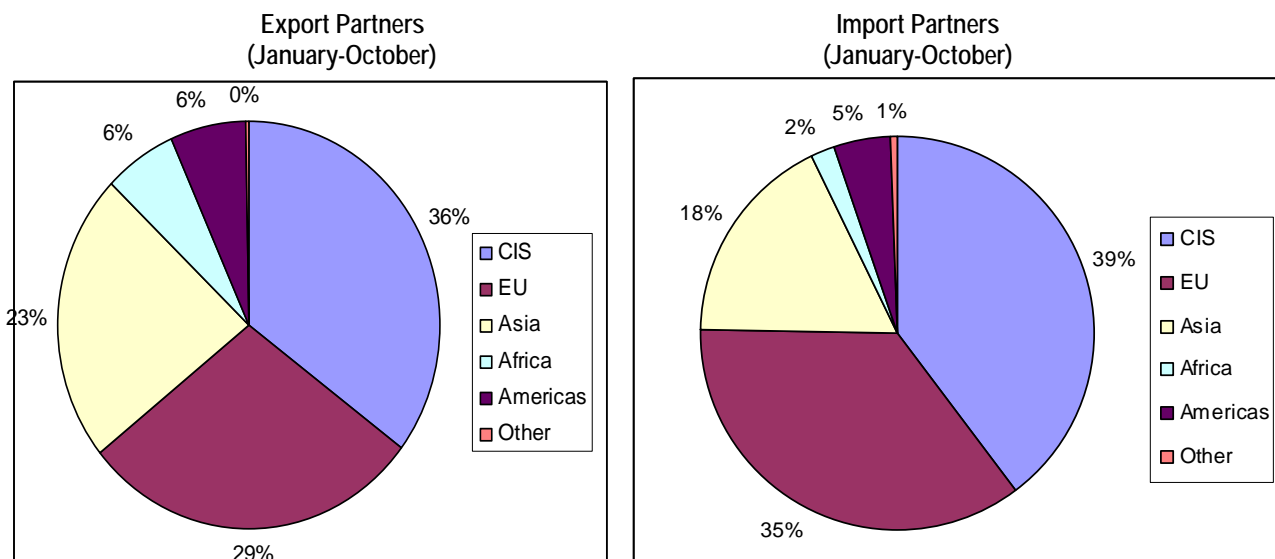
Ukraine's diverse economy has helped it to build links to Western Europe as well as to other countries in the former Soviet Union. Its ties to Russia remain strong as Ukraine still depends on Russia for its natural gas, a key energy source for Ukraine. Additionally, a number of important Ukrainian businesses are owned by Russians. Ukraine also, until recently, has exported steel to Western Europe. Additionally, Ukraine has demonstrated an ability to maintain a breadth of relationships in the former Soviet Union by

<sup>16</sup> Chawla, Betcherman, and Banerji (2007).

becoming the leading trading partner of Georgia, importing wine, mineral water, and other agricultural products from that country.

Ukraine’s economy was the industrial fulcrum of the Soviet Union. Its coal, steel-making, machinery, and aviation sectors, for instance, were all crucial to the Soviet Union’s economy. Agricultural exports of grains and oilseeds have also been significant. Thus it is unsurprising that Ukraine continues to trade heavily with countries of the former Soviet Union, especially Russia (24% of exports and imports), and to rely heavily on the region for key materials (such as energy) (Figure 5). However, as the literal borderland between Europe and Russia, Ukraine also increasingly looks westward and sells a variety of agricultural and industrial goods into (as well as buys from) EU markets, especially Italy, Germany, and Poland. However, since the writing of this assessment in December 2008, there appears to have been a pronounced tilt in foreign policy towards Russia.

**FIGURE 5: UKRAINE TRADE PARTNERS, 2008**



Source: Ukraine State Statistics Committee

Ukraine’s exports have been heavily dominated by steel and other ferrous metals. In 2008, 36% of Ukraine’s exports were in this single category. Minerals and metals comprise over 50% of total exports. When the global financial crisis dried up investment capital, global construction projects ground to a halt, curbing global demand for one-third of Ukraine’s exports. This in turn has led to slowdowns, financial arrears, and even closures of steel mills, coal mines, and other enterprises.

The challenge for Ukraine’s export economy is to evolve production into a more diversified and highly productive set of export goods that makes good use of Ukraine’s comparative advantages. Ukraine is pursuing this goal through a strategy of trade liberalization and improved access to foreign markets through preferential trade agreements with key trading partners. Accession to the WTO was realized in 2008 and forward progress was being made toward realization of the EU-Ukraine Partnership and Cooperation Agreement’s (see the Action Plan in EU 2005) vision of a free trade area between the two. However, the 2010 change in government has not accelerated that process. Economic cooperation between Europe and Ukraine has taken on greatly heightened sensitivity in early 2009 in light of the natural gas trade disputes involving Russia, Ukraine, and the EU.

Unlike US free trade agreements (FTAs), which include specific chapters on labor that subject labor disputes among partner countries to the same dispute resolution mechanisms as other parts of the FTA,<sup>17</sup> labor rights are addressed in several EU FTAs under the broader rubric of “social cooperation.”<sup>18</sup> The EU is committed to ensuring that trade-related labor effects do not undermine internationally recognized core labor standards, and “routinely includes cooperation initiatives and incentives to better working conditions in the trade agreements it negotiates.”<sup>19</sup> Compliance with United Nations (UN)/ International Labor Organization (ILO) human rights conventions, including CLS, is a requirement for developing country eligibility for enhanced preferential access to the EU market under the EU’s Generalized System of Preferences (GSP+).<sup>20</sup> Trade sustainability impact assessments (TSIAs) are carried out in advance of EU FTA negotiations. EU agreements may also prioritize social cooperation measures that address *inter alia* labor relations, employment, working conditions, children’s rights, and social welfare.

In their estimate of the impacts of various trade liberalization scenarios between the EU and Ukraine, ECORYS/CASE suggest that Ukraine’s trade balance in cereals, meat and animal fats, machinery and electronics, metallurgy products, and distribution services will improve and consumers will benefit from enhanced choice and lower prices.<sup>21</sup> However, the authors also point out that taking advantage of new trade opportunities will require investments in regulatory frameworks and enforcement mechanisms, new definitions and systems for upholding grades and standards, improved production technologies, reallocation of resources within and across sectors, trade infrastructure upgrades, and the like. Regarding labor issues, the Ukraine TSIA notes that improvements in quality of work and rights at work are expected to occur through the indirect effects of foreign investor corporate social responsibility programs, and increased social dialogue is expected as tripartite discussions address economic restructuring challenges.<sup>22</sup> The ECORYS/CASE models also expect that with trade liberalization employment will increase in specific agricultural subsectors (particularly livestock and vegetable oils and fats), as well as in various industrial and service sectors of the economy, e.g., chemical, ferrous metals, textiles and apparel, other manufacturing (metal products, motor vehicle parts, electronic equipment, machinery), and in construction and trade sectors, as comparative advantage opportunities are realized. In the ARC, employment trends are expected to be positive in traditional sectors such as agriculture and food processing, as well as tourism and recreation. Foreign investment trends in Sevastopol and the ARC in less traditional sectors such as transport and trade infrastructure, energy, and environmental and municipal services will also influence employment trends.<sup>23</sup>

The Ukrainian think tank International Center for Policy Studies (ICPS) also considered the impact of deep economic integration with the EU.<sup>24</sup> “Deep” free trade, or FTA+, is defined as the inclusion of agriculture and services sector considerations, as well as harmonization of regulatory frameworks, in addition to tariff reduction/elimination, between the two partners. The chief labor-related issues considered in the ICPS assessment are those related to free movement of labor and coordination of social benefits programs into the EU. The authors consider that Ukraine will benefit from increased employment opportunities as more EU firms relocate to Ukraine to take advantage of relatively lower costs of labor,

---

<sup>17</sup> True of all US FTAs negotiated subsequent to the 1994 North America Free Trade Agreement, which treated labor issues separately in the North American Agreement on Labor Cooperation.

<sup>18</sup> This is the case, for example, in the South Africa and Chile Association Agreements.

<sup>19</sup> See [http://ec.europa.eu/trade/issues/global/social/index\\_en.htm](http://ec.europa.eu/trade/issues/global/social/index_en.htm) for more information.

<sup>20</sup> See [http://ec.europa.eu/trade/issues/global/gsp/index\\_en.htm](http://ec.europa.eu/trade/issues/global/gsp/index_en.htm) for more information. See also Atleson et al. (2008, 465-474).

<sup>21</sup> ECORYS/CASE 2007c.

<sup>22</sup> ECORYS/CASE 2007b, 23-26.

<sup>23</sup> See the Crimean Investment Portal at [www.invest-crimea.gov.ua](http://www.invest-crimea.gov.ua) and activities under the Crimean Initiative of the USAID-supported Local Investment and National Competitiveness (LINC) program, [www.linc.com.ua](http://www.linc.com.ua).

<sup>24</sup> ICPS 2007.



although the persistence of the global economic crisis is likely to mute this anticipated benefit until a recovery takes place.

Ukraine's economy, like those of much of the rest of the world, is in a period of turmoil as this report is being written. The global economic crisis has already begun to have an impact on Ukraine, where production and wages are down, underemployment is growing, and the value of the Ukrainian hryvnia (UAH) has been de-linked from the US dollar and is weakening rapidly.<sup>25</sup> Rising foreign investment inflows, led by the eye-popping privatization in 2005 of Ukraine's largest steel plant Kryvorizhstal, sold for \$4.8 billion to the Mittal Steel company (now part of Arcelor Mittal), had heated up Ukraine's economy by mid-2008. Ukrainian banks created dollar-denominated consumer loan products at favorable interest rates. With the more than 50% decline in the value of the UAH, however, ability to repay those loans is now in doubt, threatening the solvency of parts of the Ukrainian banking system. There is a sense in Ukraine that this is only the beginning of a downward economic trend that could destroy almost a decade of economic growth and destabilize the country both politically and economically.

## 2.4 POLITICAL ECONOMY OF LABOR'S UNDER-REPRESENTATION

While some attention needs to be paid to the current economic situation summarized above, focusing exclusively on the current and likely future developments in the economy obscures important things we need to understand about the economy of Ukraine since independence in 1991, and the politics of labor and working people during those years. Understanding Ukraine's political environment is essential to understanding economic policy, labor policy, and related issues affecting working people in Ukraine. Since the Orange Revolution in late 2004, which brought President Viktor Yushchenko to power after several weeks of massive protests following a fraudulent election, Ukraine's political environment has been beset by a chronic crisis that underlines the need for reform.

The major political forces in Ukraine are best understood as a series of largely, but not entirely overlapping polarities—including orange vs. blue, west vs. east, and Party of Regions vs. BYuT<sup>26</sup>—that have been deadlocked for the last four years. This deadlock has created a kind of low-level crisis which is predictable, and even stable, but which prevents the government or the parliament (*Verkhovna Rada*, hereafter, the *Rada*) from becoming seriously involved in policymaking or legislating. The December 2008 agreement to form a coalition between BYuT and Our Ukraine is probably best viewed as another iteration of this low-level instability, rather than as a new coalition that will durably change the political pattern in the country.

Political cleavages in Ukraine, like many countries in the 21<sup>st</sup> century, do not break on economic lines. There is neither an identifiably labor-oriented party seeking to expand rights and protections for workers and to increase the state's involvement in the economy nor a business party seeking to reduce the state's role in the economy and restrict the rights and protections of workers. In recent years an expanding economy, and similarities between the parties on economic issues, have made it possible for the parties to avoid taking clear positions on issues of direct relevance to working people. Additionally, because the primary division between the two major parties is geographic, both parties have industrialists and oligarchs among their leadership.

One unfortunate, but very significant, result has been that issues of wages, workers' rights, and the like have rarely been part of the policy discussion in Ukraine. There is ample evidence of this. For example, no Ukrainian parliament since independence has passed a labor law, despite efforts to draft a new one

---

<sup>25</sup> Pegged to the U.S. dollar in a managed float at a rate of around 5 UAH/\$, the value of the UAH fell to 8 by the end of the team's stay in Ukraine.

<sup>26</sup> Orange is the color of the Our Ukraine party, while blue represents the Party of Regions. BYuT is the party bloc led by Prime Minister Yulia Tymoshenko.

with the help of the ILO, so the country still uses the oft-amended 1971 labor code, which dates back to the pre-independence Soviet era. Although the minimum wage has been increased several times in recent years, there has been little other major legislation with direct bearing on the workplace in recent years. Thus, work-related issues are, to a great extent, peripheral to politics in Ukraine. Correspondingly, in many respects politics is peripheral to work life as well, as few workers or institutions representing workers see changing laws as a viable way to improve the lives of working people.

The reasons for the lack of influence by labor have almost nothing to do with the electoral system. In fact, a unified party list system should help major national interest groups like labor unions, as they do in other countries, such as Israel. Labor unions and issues have little influence over the politics in Ukraine because they are either very weak or heavily tied to one of the parties. More importantly, the political system is dominated by other cleavages and no labor/capital polarity has ever evolved in Ukraine.

Issues of central import to workers and issues regarding labor policy are not a top priority for policy makers despite a relatively large proportion, over 40% according to most estimates, of unionized workers in Ukraine. This number is misleadingly large for two primary reasons. First, unionization in Ukraine occurs passively. Newly-hired workers at several of the major long-established employers are automatically made members of the large, Soviet-era successor, FPU. Membership in this union extends to people in management positions, as well as to students and pensioners. Thus, union density is not a very useful way to measure union strength in Ukraine.

A related point is that while there is substantial union membership in Ukraine, it is concentrated in only a few industries, primarily state employees, including teachers, and heavy industry, primarily mining, steel, and related fields. Thus, there are huge gaps in union density as the retail, private- and foreign-owned industry, small business, and other less formal sectors have extremely low proportions of unionized workers. There are very few formal, or informal, means for these non-unionized workers to have their concerns addressed by the government. Strikes have been used at times to request back wages or salary increases. In December 2008, several thousand trade unionists marched in the centre of Kyiv, protesting against the government's anti-crisis plans, which were developed so as to meet the stringent conditions attached to the IMF relief loan.

A number of laws exist regarding minimum wage, leave, hiring, and firing practices in Ukraine that apply to all workers regardless of whether or not they are members of labor unions. However, in the informal economy, including much of the retail and service sectors, these laws are largely honored in the breach. Workers make their own agreements or "cut their own deals" as one American NGO activist phrased it, when applying for a job, particular with smaller businesses. If employment laws are broken, the only recourse they have is the court system, but few believe this approach is likely going to solve any of the problems facing aggrieved workers.

The relationships between unions and political parties are also a key component to understanding why labor-related issues do not get sufficient attention from policy makers. On the surface, the relationship between labor unions and political parties or blocks of political parties seems somewhat simple. The larger FPU, which dates from the Soviet period as the predominant worker organization, is aligned with the Party of Regions, while the much smaller, newer, and more independent KVPU supports BYuT. This analysis, while not altogether inaccurate, simplifies the situation far too much.

The FPU supports the Party of Regions, but it is not part of the Party of Regions' governing coalition in any real sense. More accurately, the benefits for the FPU in this arrangement do not generally take the form of issues which are important for FPU workers. Instead, it is the owners of the plants where the FPU works who benefit from this arrangement. The Party of Regions is a pro-business party which uses the FPU to communicate and direct workers, but the FPU does not seek to represent the interests of their members to the party. This is very similar to the relationship that the FPU's predecessor had with the Communist Party, acting as a transmission belt from the Party to the workers, but not vice-versa. In December 2008 the new president of the FPU was named without voting of the members, which some

interpret as a party effort to gain control of the union. Several other FPU members are also MPs with the Party of Regions. FPU members are concentrated in eastern Ukraine which, for a range of non-labor-related reasons, is the stronghold of the Party of Regions. Thus, while their members tend to vote strongly for the Party of Regions, this allegiance is not due to union membership or identity. The FPU is more of a means for the Party of Regions to maintain their electoral base in eastern Ukraine and to smoothly implement their policies, than it is a way for the voices of workers to be heard by party leadership.

The KVPU is much smaller than the FPU and therefore plays a less significant role in the BYuT party block than the FPU does in the Party of Regions, but this relationship is more complex for other reasons as well. The leadership of KVPU seemed very reluctant to discuss how their union interacted with political parties, preferring to make initial statements such as “we have members of all parties” or “we don’t tell our members how to vote.” While these statements, at first glance, seem appropriate, they are not reflective of a political strategy that is likely to be very effective.<sup>27</sup> Moreover, these statements also do not very accurately reflect the truth. The KVPU has had a relationship with BYuT that goes back at least to the last years of Leonid Kuchma’s presidency (1994-2005).

Today the KVPU is aligned with BYuT. This alignment, however, should not be interpreted to mean that BYuT fights for the issues that are most pressing for the KVPU, or that KVPU is a major part of BYuT’s coalition. KVPU’s support for BYuT is best understood as a product of deal-making among elites. KVPU’s leader was awarded a seat in the *Rada* on the BYuT list in exchange for KVPU support during the key period of the Orange Revolution and, presumably, for the union’s ongoing support of BYuT.

KVPU asserts that its leader is not a member of BYuT, but rather an independent MP elected on the BYuT list. This is, of course, a distinction without a difference, but it suggests the discomfort with which the KVPU leadership views their relationship with BYuT. KVPU has not in any meaningful way succeeded in making BYuT the party of working people, nor, according to KVPU, do labor-related votes generally break on party lines. This is not a criticism of KVPU, but rather reflects the complexity of union-party-legislative relations in Ukraine. Moreover, given the relative size and newness of KVPU, it is unrealistic to expect them to be a major player in Ukrainian politics at this time. With less than 300,000 members, KVPU is not likely to be a major interest within BYuT.

This analysis of the relationships between labor unions, the legislature, political parties, and the legislative process must be tempered by a reminder that Ukraine is still, to a substantial extent, a country without a strong rule of law. Another way to understand this is that decisions made in the *Rada* frequently do not have a direct bearing on the lives of working people, because many of these laws are ignored or skirted and few means of enforcing these laws exist.

## 2.5 CRIMEA

As described in the political economy section above, Ukraine’s development challenges also need to be understood at the sub-national level. One region—the ARC—is of particular consideration, for both economic and geopolitical reasons. Already an autonomous republic within Russia under the Soviet Union, the latter ceded Crimea to Ukraine back in the 1950s; Crimea has long held special significance to the Soviet Union and now Russia. A peninsula situated in the northern Black Sea, its milder climate has attracted vacationing Russians and its port of Sevastopol is home to Russia’s Black Sea fleet, as well as the Ukrainian navy.<sup>28</sup> Crimea is also significant as the historical home of the Crimean Tatar population.

---

<sup>27</sup> This sentiment may be a reaction to the Communist Party control of unions during the Soviet era, as well as advice given to trade unions concerning the need to maintain their independence from political control. They have not yet worked out a *modus vivendi* for alleviating the tension between political independence and playing a role in the political process.

<sup>28</sup> According to the terms of its present lease with the Ukraine government, the Russian Black Sea fleet will remain in Sevastopol until 2017. A new naval port is being constructed by Russia on its eastern Black Sea coastline at Novorossiysk.

Crimean Tatars were deported from Crimea in 1944, their lands usurped by Soviet authorities. The return to Crimea of Crimean Tatar families was only made possible after the fall of the Soviet Union. This has, in turn, led to conflicts over land rights and economic reintegration.

The ARC has taken on renewed interest since the August 2008 border war between Russia and Georgia. In December 2008 the U.S. announced its intention to open a diplomatic post in Simferopol, the Crimean capital.<sup>29</sup>

As noted below, Crimea's labor market is—in some ways—quite similar to that of the rest of the country. However, because its economy is dependent on two quite seasonal activities, agriculture and tourism, average incomes in Crimea do not exceed national averages. Economic diversification into higher value-added activities within agriculture and services sectors, or into industry, would help to ensure access to more stable livelihoods for Crimeans.<sup>30</sup>

---

<sup>29</sup> See Susan Cromwell, "U.S. intends to open diplomatic post in Crimea," *Reuters*, December 19, 2008, [www.reuters.com](http://www.reuters.com).

<sup>30</sup> USAID's anticipated new economic growth project to be launched in 2009, the Local Investment and National Competitiveness (LINC) project, expects to include a set of activities targeted to Crimea.

# 3.0 UKRAINE'S LABOR SECTOR

Using the conceptual framework summarized in Section 1 above, this section describes the four dimensions—the legal foundation, government institutions, organizations, and markets—that underpin Ukraine's labor sector, as observed during the team's assessment.

## 3.1 LEGAL FOUNDATION

Ukraine is a party to various international instruments, as well as having enacted numerous pieces of domestic legislation, which provide, *de jure*, a firm foundation for the protection and promotion of labor rights. The catch is in the effectuation of these rights on a *de facto* level.

### 3.1.1 International Obligations

Ukraine has been a member of the ILO since 1954. It has ratified 55 ILO Conventions, including all of the core labor standards conventions enunciated in the ILO Declaration on Fundamental Principles and Rights at Work.<sup>31</sup>

Additionally, Ukraine joined the Council of Europe on November 9, 1995 and subsequently ratified the European Convention on Human Rights on November 9, 1997.<sup>32</sup> As a result of these actions, Ukraine is legally bound to observe the provision of the Convention and is subject to the jurisdiction of the European Court of Human Rights in instances where violations of the Convention by Ukraine are alleged.

Ukraine also ratified certain provisions of the European Social Charter (revised) on December 21, 2006. The Charter obligates the signatories to pursue policies aimed at the attainment of the principles espoused in the Charter, including, *inter alia*, the right to work; the right to just conditions of work; the right to safe and healthy working conditions; the right to fair remuneration; the right to organize and bargain collectively; the right to equal opportunities and equal treatment at work without discrimination based on sex; the right to information about, and consultation with, workers' employing entities concerning decisions which would impact on issues of interest to workers including collective redundancies; the right of workers to take part in determining and improving conditions of work; the right to protection in cases of termination of employment; the protection of worker's representatives from acts of discrimination; and the right of workers' representatives to be afforded facilities within the employing entity for purposes of carrying out their functions.<sup>33</sup> The Charter includes a supervisory mechanism pursuant to which

---

<sup>31</sup> These "core" conventions are C. 87 and 98 concerning freedom of association and the effective recognition of the right to collective bargaining; C. 29 and 105 concerning the elimination of all forms of forced or compulsory labor; C.138 and 182 concerning the effective abolition of child labor; and C. 100 and 111 concerning the elimination of discrimination in respect of employment and occupation.

<sup>32</sup> The Convention guarantees, *inter alia*, the right to form and join trade unions and prohibits the State from placing restrictions on the exercise of this right except under very limited circumstances. See CONVENTION FOR THE PROTECTION OF HUMAN RIGHTS AND FUNDAMENTAL FREEDOMS, Article 11, "Freedom of assembly and association." Freedom from discrimination is assured in Article 14.

<sup>33</sup> See EUROPEAN SOCIAL CHARTER, Arts. 1-6, 20-22, 24, and 28-29.

signatories provide national reports for review to the European Committee of Social Rights, which adopts conclusions concerning state party conformity to the Charter.<sup>34</sup> There is also a collective complaints mechanism, but Ukraine has not accepted that mechanism.

Lastly, Ukraine is a party to several international conventions which have implications for labor rights: the International Covenant on Civil and Political Rights (Art. 22: freedom of association and the right to form trade unions); the International Covenant on Economic, Social, and Cultural Rights (Art. 8: the right to join unions and the right to strike); Convention on the Elimination of All Forms of Discrimination against Women (Art. 12: elimination of sex discrimination in employment, right to equal remuneration, and provision of maternity leave); and International Convention on the Elimination of All Forms of Racial Discrimination (Art. 5: prohibition of racial discrimination in employment).<sup>35</sup>

### 3.1.2 Domestic Legislation

The Constitution of Ukraine (adopted June 28, 1996) expressly provides for the recognition of a series of rights pertaining to work, including, *inter alia*: Art. 36: the right to take part in trade unions to protect socio-economic interests; Art. 43: the right to employment of one's choice, the right to safe and healthful work conditions, and the right to receive the minimum wage prescribed by law; Art. 44: the right to strike; Art. 45: the right to rest from work; and Art. 46: the right to social protection benefits. Article 9 of the Constitution also states that international treaties form part of the national legislation of Ukraine.

The foundational statute governing labor relations is the Labor Code of 1971 (as amended). It is based in large measure on labor principles dating from the Soviet, pre-independence era, and is seen by many as inadequate in meeting the needs of a market economy. Beginning in 2001, there have been repeated, and up until now unsuccessful, attempts to revise the Labor Code. In 2002 the ILO provided technical assistance in drafting a new code; a year or two later a delegation of specialists from the *Rada* went to the ILO to discuss some issues regarding the draft. In 2003 a draft labor code was presented to the *Rada* and passed the first reading, but the *Rada* was subsequently dissolved before the draft could be enacted. In 2008, another draft was presented and also passed the first reading. This draft, however, faces serious opposition. Over 1,000 amendments were made to the draft by *Rada* members. Both the KVPU and several employer associations have voiced their opposition. The employers alone have 90 disagreements with the current draft. Some of the sticking points involve the procedure for firing workers and the right of trade unions to be involved in management decision-making. Currently a working group, consisting of representatives of the Confederation of Employers and the FPU as well as the Ministry of Labor and Social Policy, is reviewing this draft labor code. The KVPU has participated in this working group from time to time but has not attended all sessions. In December 2008, the Minister of Labor met with the ILO in Geneva to discuss the draft labor code.

In the absence of new legislation, the Labor Code of 1971 continues to be the primary statutory source for regulating labor relations. The Labor Code consists of 18 chapters addressing such issues as collective agreements and individual agreements, wages and hours, redundancy, labor discipline including discharge, special provisions for female and youth labor, trade unions and worker collectives, and social insurance funds. The Labor Code is supplemented by other legislation addressing certain topics in more detail, such as

- Law on Employment of 1991;
- Law about Labor Protections of 1992;

---

<sup>34</sup> Ukraine's first report under the Charter was due on October 31, 2008; as of this date there has been no report from the European Committee of Social Rights concerning its conclusions regarding compliance.

<sup>35</sup> Ukraine has also signed, but not ratified, the Convention on the Rights of Persons with Disabilities (Art. 27: prohibiting discrimination in employment on the basis of disabilities and ensuring reasonable accommodation in the workplace).

- Law Respecting Collective Contracts and Agreements of 1993;
- Law about Payment of Labor of 1995;
- Law on Procedure for Settlement of Collective Labor Disputes of 1998;
- Law on Trade Unions, Their Rights and Guarantees of Activities of 1999;
- Law about Obligatory State Social Security from an Industrial Accident and Professional Disease, which Entailed the Loss of Capacity of 2000;
- Law about Obligatory State Social Unemployment Insurance of 2000;
- Law about Organizations of Employers of 2001;
- Law about Obligatory State Social Security in Connection with the Temporal Loss of Capacity and Charges Conditioned by the Burial Place of 2001;
- Law about Obligatory State Pension Insurance of 2003;
- Law on Non-State Pension Provision 2004; and
- Law on Ensuring Equal Rights and Opportunities of Women and Men of 2006.

### ***Issues Relating to Hiring and Firing***

The 1971 Labor Code envisions that most employment relations will be based on an individual labor agreement. Entering into a labor agreement entitles the employee to all the protections and rights contained in the Labor Code, including, *inter alia*, limitations on the employer's ability to terminate employment; a minimum of 24 vacation days; prohibition of overtime except in emergencies; eleven public holidays; and employer contribution to social benefit funds. These provisions, and others, limit the employer's flexibility and add to labor cost. For example, in cases of redundancy, an employee is entitled to two months' notice in addition to one month's severance pay; the employer's contribution to the four social insurance funds constitutes approximately 36% of payroll (see Table 3). According to the Labor Code, one month's severance pay should be paid in the following cases: 1) refusal of the employee to be transferred to a job in a different locality together with the enterprise, organization, or institution, or his or her refusal to continue work after a change in the substantial conditions of labor; 2) changes in the organization of production and labor, including liquidation, restructuring, bankruptcy or restructuring of production of the enterprise, organization, or institution, reduction of the number or staff of employees; 3) established unfitness of an employee for the position occupied or work performed as a result of inadequate qualifications or health status, which precludes his or her continuing in the job; 4) reinstatement of the employee that previously performed the job in question.

The response by employers to these rigidities has been the creation of avoidance mechanisms to skirt the requirements of the law. Employees hired under a labor agreement are often required to sign an undated resignation letter at the time of hire which is then used at the time of termination to avoid both the limitations on the right to terminate, as well as notice and severance requirements. Envelope wages<sup>36</sup> are a common method of limiting the employer's cost of contributions to the social benefit funds—the employer bases its contribution amount solely on the “official” wage and not on the amount of wage contained in the envelope. Several interviewees estimated that 60-80% of total wages are envelope wages. In an interview with the Department of Labor and Social Protection of the Ministry of Labor and Social Policy in Lviv, the agency was aware of the problem of envelope wages but did not indicate that it was making any effort to deal with the situation. A final method used by employers to avoid cost and rigidity

---

<sup>36</sup> Envelope wages are what would be termed “under the table payments” in the US.

is the use of “private entrepreneurs”<sup>37</sup> (i.e., independent contractors) in place of employees under a labor agreement. Although legal, many of these private entrepreneurs are treated as if they were employees, yet they are not subject to the protections of the Labor Code nor is the employer required to make any social insurance contributions on their behalf.

### ***Wage Issues***

Separate from the problem of envelope wages is the issue of wage arrears. The Law about Payment of Labor of 1995 requires that wages be paid not less frequently than twice a month. As of January 1, 2009, however, total arrears in payment of wages amounted to 1,188.7 million UAH, or 8.6% of the total wage bill. Wage arrears have been an ongoing problem for Ukraine as noted annually by the ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) in its Individual Observations concerning the Protection of Wages Convention (C95) since at least 1995. Judgments by Ukrainian courts ordering payment of wage arrears often remain unenforced. As a result there have been numerous cases brought before the European Court of Human Rights in which the Court has found that Ukraine is violating Article 6 of the European Convention on Human Rights by failing to enforce the decisions of its courts.<sup>38</sup>

### ***Workplace Safety and Health***

The Labor Code places responsibility on the employer to provide safe and non-hazardous workplaces. Ukraine’s employment accident rate remains high, however.<sup>39</sup> The rate of fatal injuries for 100,000 workers in 2006 was 8.3, as compared to 3.4 for the Czech Republic, 3.13 for Hungary, 7.2 for Bulgaria, 7 for Romania, 5 for Slovakia, 5.8 for Belarus, and 4.6 for Poland.<sup>40</sup>

Equipment in the railway industry is old and worn out; the newest locomotive in Lviv was manufactured in 1982. There is a similar problem in the mining sector where equipment is old and of poor quality. In 2006 there were two fatalities for every ton of coal mined.<sup>41</sup> There is not enough money to adequately finance needed safety reforms.

### ***Collective Bargaining***

While collective bargaining is guaranteed by law, employers often refuse to engage in bargaining or bargain in bad faith. If more than one trade union exists in an enterprise, the law provides for the creation of a joint representative body to engage in bargaining. If the unions are unable to agree on joint representation, then the trade union representing the largest number of workers can execute an agreement. This usually results in FPU-affiliated unions controlling the bargaining process, to the exclusion of independent unions.

The law also requires that employers provide unions an office on the company premises and supply information necessary for bargaining. These provisions are often ignored.

### ***Registration of Unions***

---

<sup>37</sup> Under a revised law to encourage small business development a person may register under a streamlined “single window” process as a self-employed, “private entrepreneur” and pay a flat rate tax of 200 UAH at most.

<sup>38</sup> See e.g., *Krivosnozko and Demchenko v. Ukraine*, nos. 7435/05 and 7715/05 (Eur. Ct. of H.R. 2008); *Vorotnikova v. Ukraine*, no. 1225/02 (Eur. Ct. of H.R. 2008); *Bugayev v. Ukraine*, no. 26168/04 (Eur. Ct. of H.R. 2008); *Drobotyuk v. Ukraine*, no. 22219/02 (Eur. Ct. of H.R. 2005); *Gavrilenko v. Ukraine*, no. 24596/02 (Eur. Ct. of H.R. 2005).

<sup>39</sup> Fifth Periodic Report submitted by Ukraine to the U.N. Economic and Social Council under Articles 16 and 17 of the Covenant of Economic, Social and Cultural Rights ¶171 (June 7, 2006).

<sup>40</sup> Statistics available at <http://laborsta.ilo.org>.

<sup>41</sup> Fifth Periodic Report submitted by Ukraine to the U.N. Economic and Social Council under Articles 16 and 17 of the Covenant of Economic, Social and Cultural Rights ¶178 (June 7, 2006).



In Ukraine, there is no legal obstacle to establishing a labor union. The Ministry of Justice cannot refuse to register a labor union, and a labor union obtains the status of a legal entity from the date when the founders sign a protocol to establish it. Some observers are of the opinion that it is too easy for three people to register a trade union as a public organization after a few weeks of work and to start making demands immediately.

Provisions on local vs. national level registration still present concerns, however. Even though the registration fee for a Ukraine-wide national association was reduced to 170 UAH in 2007, it is still higher than the registration fee for a local public association (85 UAH). In order to register a national association it is necessary to establish branches in at least 14 regions of the country, making it very difficult to register, compared to the process for registering a local association. At the same time, a local association is restricted in its activities to the city/region where it is registered.

A new draft Law on Public Associations was submitted by the Cabinet of Ministers to the *Rada*. This draft was prepared at the initiative of, and with active participation from, Ukrainian NGOs. If adopted, the new law will eliminate restrictions relating to the territorial status of public associations.

### ***Anti-Union Discrimination***

Although discrimination in employment based on union membership is prohibited by law, union members are often subjected to intimidation, pressure, and discrimination by employers. During the Soviet era, all workers were members of FPU-affiliated unions. After independence, unless a worker took an affirmative step to change or renounce union membership, s/he continued to be a member of the FPU by default. Often when workers try to change union affiliation, the employer threatens or intimidates them. At newly established enterprises which do not have incumbent unions from the pre-independence days, employers threaten workers who try to organize a union or they create a “yellow” union<sup>42</sup> in order to prevent the establishment of a union. Generally there are no unions in enterprises employing fewer than 50 workers. While the criminal code provides for fines and, in some cases, imprisonment for violation of trade union rights, the International Trade Union Confederation (ITUC) reports that no employer has ever been held liable under these provisions, even when courts have determined that there has been unlawful discrimination against trade union members.<sup>43</sup>

### **3.1.3 Labor Law Strengths & Weaknesses**

In summary, while the labor laws, as written, are very protective of worker rights and generally supportive of union activity, the enforcement of the legal framework has left a pronounced gap between law and practice. There is almost universal agreement that the law is honored more in the breach than in the observance. Legacies from the Soviet era undermine the effectiveness of unions and labor-related government institutions are beset with the political immobilism that has minimized priorities placed on labor issues in public policy arenas. From the government perspective, the lack of resources, capacity, and will contribute to ineffective enforcement. From the citizens’ perspective, there is a high tolerance for “avoidance” and a lack of respect for the rule of law. Larger companies and foreign companies are more likely to comply with the labor laws than smaller or domestic corporations.

The implication for labor sector strategies is that a focus on the legal framework that undergirds the labor sector is not in itself likely to yield results without also addressing some of the more fundamental constraints in regards to government institutions and labor organizations. However, work remains to be done to replace the much amended 1971 Labor Code with a more updated version that reflects Ukraine’s political evolution in the post-Soviet era. As the country faces strains from both the external global

---

<sup>42</sup> I.e., an employer-controlled union.

<sup>43</sup> ITUC 2006, 2007, 2008.

economy and from internal demographics, the regulation of the labor market will become even more important as established social safety nets, such as the pension system, fray. The next subsections elaborate some of the constraints and opportunities that exist in regards to the other key components of the labor sector.

## 3.2 GOVERNMENT INSTITUTIONS

The chronic, low-level crisis that has been a constant feature of political life in Ukraine since the Orange Revolution has made both the executive and legislative branches of the government weaker and less effective. Additionally, Ukraine's constitution divides power ambiguously and awkwardly between the president and the cabinet, therefore institutionalizing struggles for power between these two branches of government. As a result, political leaders over the last several years have focused more attention on politics than on governance. Constant struggles for power between the two or three major political parties as well as between the three major branches of government, the legislature, presidency, and prime minister, have proved to be distractions from the work of governance. For the most part, government institutions in Ukraine are not deeply concerned or involved with labor issues. The substance of such issues is consistently overshadowed by political maneuvering, high profile issues of national identity and foreign policy, as well as by an approach to economic development that is focused considerably more on wealth production than on fairness to those actually producing the wealth.

The failure to replace the 1971 Labor Code is but one example of how government institutions have not provided an adequate forum to improve the legal framework, let alone been able to enforce it. Issues of import to workers are occasionally addressed in the legislature through large scale legislation such as raising the minimum wage. However, the failure of the *Rada* to pass a labor law since Ukraine became an independent country encapsulates the inability of government institutions to address the myriad issues which affect workers' lives.

Workers instead rely mostly on ad hoc solutions to compensate for an unreliable court system and a weak patronage system, which is considerably stronger in the east where the Party of Regions dominates, to resolve work-related problems, adjudicate disputes, and advance their concerns.

The picture regarding government institutions in Ukraine is not, however, altogether bleak. Political institutions in Ukraine are relatively open. The trend of increasingly illiberal regimes in the former Soviet Union with power concentrated in a relatively few hands has not been strongly felt in Ukraine. Politics in Ukraine remain open and contested. While neither of the two major parties in Ukraine are particularly supportive of labor, the fact that there are two, in fact more than two, political parties in Ukraine which compete for power and votes, is increasingly unusual in the former Soviet Union.

Ukraine is far from being a consolidated democracy, but the degree of contestation is not only better than most of the rest of the region, but means that if workers are able to organize, it is more than likely that there are political forces that will respond to this. The BYuT/KVPU relationship is not yet an example of this, but it is likely a sign that things could move in a positive direction.

Additionally, post-Orange Revolution Ukraine enjoys a degree of political openness that is substantially greater than that of the Kuchma period, and of many other countries in the region. Therefore, although workers can expect some degree of opposition and even harassment from some elements within the government, they can also expect considerable space in which to act and organize. Recently, demonstrations have been allowed to go forward unhindered and union organizing has encountered some, but not crippling, resistance from the government. In short, Ukraine remains a country where workers, and others, can articulate their concerns without fear of crippling retributions. The existence of this political space suggests that improvements on the part of government institutions can lead to greater representation and more informed policy dialogue on labor issues.

### 3.2.1 Tripartite Social Dialogue

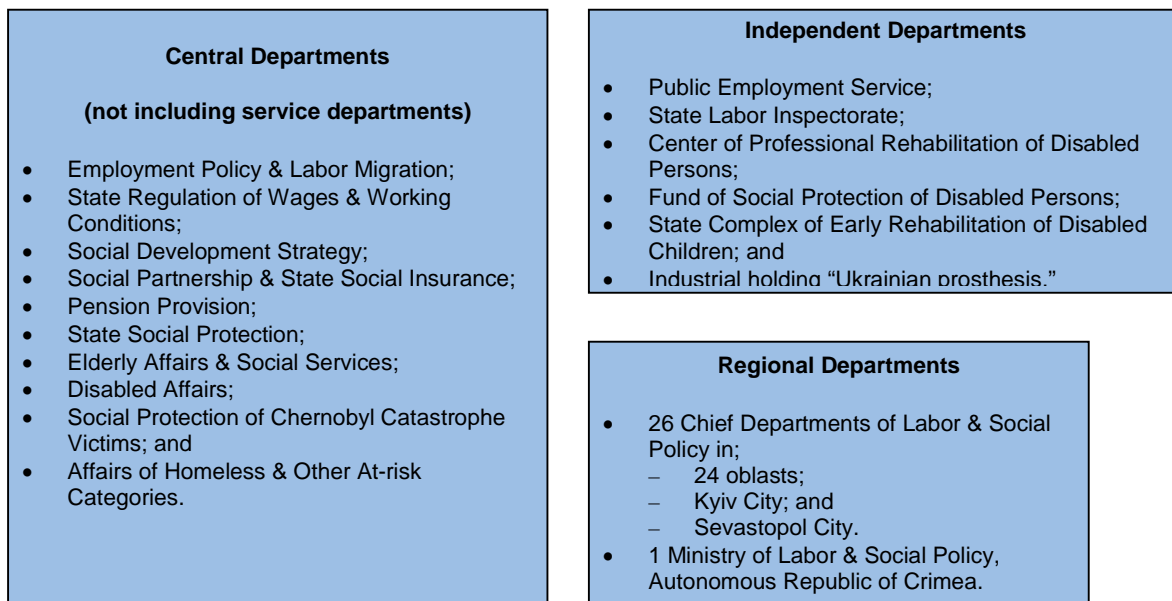
In 1992, a National Tripartite Council of Social Partnership was established. Its membership consisted of the Federation of Employers (the only employer association at that time), the FPU, the KVPU, and other smaller union confederations. The Council engaged in collective bargaining at the national and regional level and provided a voice for union input to the government on social and labor issues.

This Council was subsequently dissolved and in 2005, by presidential decree, a new National Tripartite Social Economic Council was created. The new Council is effectively controlled by the President. It enjoys only a consultative status to the President, who decides its composition and who calls it into session. It meets only once a year. It is generally agreed that the Council is not particularly effective. A new draft law on social dialogue has been written with the technical assistance of the ILO, but it is still under discussion. The situation in regards to tripartism in Ukraine is thus reflective of the broader shortcomings of government institutions when it comes to grappling with labor issues.

### 3.2.2 Ministry of Labor and Social Policy

The Ministry of Labor and Social Policy was established by presidential decree in 1997 and given the broad mandate of intensifying economic reforms and developing and implementing social policy. It is charged with employment policy, labor remuneration issues, labor inspection, and with providence programs such as the pensions system, and finds itself in an increasingly critical position since its responsibilities encompass many elements of the social safety net.<sup>44</sup>

**FIGURE 6: MINISTRY OF LABOR AND SOCIAL POLICY ORGANIGRAM**



<sup>44</sup> The labor assessment team's access to the Ministry of Labor and Social Policy was mostly with the Public Employment Service and the Department of Labor and Social Protection in Lviv. Our discussion of the Ministry, therefore, does not include analysis of the departments responsible for labor inspections and regulation of wages and working conditions. Moreover, online searches conducted in an effort to find other institutional analyses of Ukraine's Ministry of Labor and Social Policy suggest that this has not been a preoccupation for researchers or other donors. For example, the Trade Sustainability Impact Assessment of a possible enhanced FTA between the EU and Ukraine conducted by ECORYS and CASE (2007c) considered employment, wage, productivity, quality of work, labor rights (through linkages to CSR programs with European companies), social protection, and social dialogue effects of enhanced trade, but did not consider institutional dimensions of labor rights issues, as the US has done in Central America, for example, with its labor justice and ministry of labor capacity-building programs.

The social protection elements with which the Ministry is charged include poverty reduction strategies, protection of the disabled, pensioners, victims of the Chernobyl catastrophe, the homeless, and various welfare provisions. The Ministry also houses the State Employment Service (SES), which has distinguished itself as modern and well organized. Ukraine's State Statistics Committee is responsible for the collection of labor force survey data, collected on a monthly basis, which establishes national employment and unemployment rates.<sup>45</sup>

As argued in a labor market review undertaken for the European Training Foundation (ETF) (Kupets et al. 2009), although the overall employment strategy in Ukraine is consistent with the ILO global employment agenda and the local employment challenges, it has significant drawbacks. First, it focuses on setting numerical targets that are not always justified, as in "the creation of one million jobs annually." Second, it contains a lot of issues to be addressed within a short period of time without prioritization. Third, most policy statements are not supported by practical tools, clear steps to be taken, and the corresponding financial resources that will be applied to them. Thus, the strategy is declarative rather than practical.

The main objectives of Ukraine's employment policy are to assure favorable conditions are in place for the creation of new jobs: develop self-employment and entrepreneurship; educate and train the labor force in response to the needs of the economy and the labor market; improve the quality of the labor force and encourage on-the-job training and lifelong learning;<sup>46</sup> regulate international labor migration to and from Ukraine; promote formalization of the informal economy, including the reduction of informal employment and unregistered ("envelope") wages; and provide employment and support to vulnerable groups (Kupets et al. 2009).<sup>47</sup> According to the authors of the ETF report, formalization of a multidimensional, integrated national employment policy implies cooperation across line ministries that is infeasible during this politically turbulent period for Ukraine.

The Ministry operates under a command culture adopted from the Soviet era, with a number of apparent institutional deficiencies. For example, there are questions concerning the efficacy of the Ministry of Labor and Social Policy's inspection system. Worker representatives do not view the labor inspectorate as qualified or effective. Labor inspections are infrequent and remedial action is often not taken when a citation is issued. Some employers reportedly bar inspectors from the premises or pay bribes to inspectors. Some trade unions complained that inspectors are not qualified. In addition, at least one department of the Ministry has turned a blind eye to the issue of envelope wages.<sup>48</sup>

The Ministry is, however, committed to social dialogue and has made an effort to increase its access to the populace, having established a hotline on pensions and a few other increasingly critical labor issues. It also operates a fairly modern employment service and a social protection network, described further below.

Social insurance (protection) programs help to insure individuals against the risks of ill health, injury and permanent disability, unemployment, maternity leave, and old age. In contrast, social assistance (safety nets) targeted to the poor or vulnerable may include price subsidies for essential consumption (e.g., food, heat, housing, transportation, medicines, and inputs), and distribution programs. The cost of the former

---

<sup>45</sup> ETF (2009) note that a pilot labor demand survey, conducted among enterprises, was also developed by the World Bank and the State Statistics Committee.

<sup>46</sup> A draft Law on Professional Development of Employees, awaiting adoption by the Parliament, would oblige every employer to invest a certain amount of money into periodical on-the-job-training of his/her employees.

<sup>47</sup> According to ETF (2009, 121) the most recent national employment policy was formulated in Ukraine in 2005 for that year only. Since then the main directions of employment policy up to 2009 have been stated not in the national employment program approved by the Parliament, but rather in the regulation of Cabinet of Ministers (No. 922 of 5 July 2006).

<sup>48</sup> See discussion in labor law section on *Issues relating to Hiring and Firing*, page 19.

programs are funded to some degree by participant contributions, whereas the financing of the latter is often (though not exclusively) based on government budget resources. In Ukraine, the assessment focused on two social protection areas, i.e. employment services and benefits and pensions to retirees.

Employers and employees contribute to four mandatory social insurance funds, according to the rates below:

**Table 3: Incidence of Ukrainian Payroll Taxes & Withholding, 2008**

	Employer Contribution percent of Payroll*	Employee Contribution percent of Payroll*
<b>Personal Income Tax</b>	N/A	15.0
<b>Mandatory Social Insurance</b>		
• Pension	33.2	2.0
• Unemployment	1.3	0.5
• Temporary Disability	1.5	1.0
• Industrial Accident and Occupation-Related Illness	0.66-13.6 (depending on classification)	N/A

Notes: \* Currently capped at 10,035 UAH (about \$1300) per month. The scheme of rates provided here is simplified. There are multiple rates within a single insurance program that apply to different types of enterprises (employers) and employees.

These payments finance a wide range of benefits, including pensions (pension fund), unemployment benefits; assistance and active labor market programs (ALMPs) to unemployed individuals (unemployment insurance); temporary disability (sickness) benefits; benefits for maternity, childbirth, child care, and funerals (temporary disability insurance); a wide range of benefits to those who suffered because of industrial accidents; and occupation-related illnesses (industrial accident insurance).

As part of its November 2008 stand-by arrangement, the IMF recommended that Ukraine produce a balanced budget, including a slowdown in the pace of social transfer expenditures. However, due to the global financial crisis and its impact on Ukraine's economy, more social safety net expenditures may be needed as more workers face layoffs. The IMF estimates that an increase in targeted social spending amounting to 0.8% of GDP may be required.<sup>49</sup>

### **Employment Services**

The Ministry of Labor and Social Policy's SES and the unemployment compensation system were established in Ukraine according to the Law on Employment<sup>50</sup> in March 1991 and are regulated under the Law on Compulsory State Social Unemployment Insurance enacted in 2001.

The effectiveness of active labor market programs administered by the SES is said to have increased over the last few years. Workers who are laid off from their jobs and actively seek work for more than one week are enrolled as unemployed. The SES provides job search and job placement (including subsidized employment) services, career guidance counseling, vocational training and public works, and unemployment income to unemployed workers. Alternatively, an unemployed worker may opt for a lump sum payment and receive entrepreneurship training in order to start one's own business. Not all unemployed persons register with the SES, helping to explain discrepancies between registered and ILO-defined unemployment rates. Primarily more disadvantaged categories of workers (e.g. women and rural

<sup>49</sup> IMF 2008.

<sup>50</sup> Whereas the 1971 Labor Code is the law which regulates all employment relations and provides for worker rights, the 1991 Law on Employment establishes a national employment policy, the State Employment Service, and provides for specific procedures, services, and benefits for the unemployed.

population) tend to rely on assistance from the SES, whereas men prefer to pursue other channels in their job searches, e.g., personal contacts, job advertisements, and direct contacts with employers.

The unemployment benefit, by all accounts, is too low both in nominal and real terms. For the first 90 days of unemployment, benefits equal to a minimum of 50% of one's average wages are paid.<sup>51</sup> The average unemployment benefit, as of December 2008, is 571 UAH per month, about 94% of the statutory minimum wage. The ratio of the average unemployment benefit to the official average monthly wage of about 2001 UAH per month (\$250) is 28.5%. Thus, many workers do not apply for the unemployment benefit and pursue other coping strategies when unemployed or faced with wage arrears, which are growing phenomena in this evolving economic environment.

### **Pensions**

Today, there are about 13.8 million pensioners in Ukraine who receive pensions for a variety of reasons: retirement and service (80%), disability (10%), victims of the Chernobyl catastrophe (6%), loss of the household provider (5%), early retirement scheme (3%), social (1.6%), and special cases (3%) Due to a number of steps taken by the Government between 2004 and 2008 aimed at improving living standards of pensioners, average monthly pensions increased four-fold in nominal terms and more than two-fold in real terms. However, in absolute terms the level of pension is still fairly low in Ukraine. For example, as of April 2008 the bulk of pensioners (69%) received from 501 to 1000 UAH (about \$100-200) per month, 14% less than 500 UAH, 10% from 1001 to 1500 UAH (\$200-300), and only 6.5% receive more than 1500 UAH (\$300).

Employers contribute 33.2% and employees contribute 2% of wages to the Pension Fund. It is said that Ukraine's high payroll taxes encourage employers to pay workers in cash (the so-called envelope wage) to lessen the high payroll tax burden. However, the minimum pension benefits forfeited through underreporting of wages are less than lost revenues to the pension system. Privileged occupational pensions add further to the financial pressure on the already over-extended pension system.

**Table 4: Ukraine Pension Payments as % of GDP**

Sources	2000	2001	2002	2003	2004	2005	2006	2007 prelim	2008 proj
World Bank	7.5	5.6	9.0	9.2	11.4	15.3			
IMF					12.1	16.5	15.4	15.2	15.0

*Notes: 2008 pensions projections include 4% spent on military pensions, which were shifted into the pension system in 2007. Pensions are expected to further increase in 2009 to over 17% of GDP (joint USAID-World Bank projections).*

*Sources: 2000-2005 = World Bank (2006b); 2004-2008 = IMF (2008a)*

The country spends about 20% of GDP on social protection programs, of which 15.3% of GDP was spent on pensions in 2005, expected to rise to over 17% in 2009 (TABLE 4). This compares with average expenditures of 8% of GDP on pensions by new EU members.<sup>52</sup> According to the IMF, about half of Ukraine's social expenditures are well-targeted, with the other half generally benefiting privileged groups (e.g., coal miners, military). One reason pension costs are high is that pension levels, while low in absolute terms, are relatively generous as a percentage of net average wages, about 49% of the average

<sup>51</sup> The longer one has been working, and thus contributing to the Unemployment Insurance Fund, the higher are the wage replacement rates. For example, for less than two years of service, the first 90 days are paid at 50% of earnings, for 2-6 years of service, 55%, for 6-10 years, 60%, and if contributing more than 10 years into the system, 70%. Rates beyond the first 90 days are also somewhat higher.

<sup>52</sup> Weigrand and Grosh (2008) have estimated social assistance (safety nets) and social insurance (protection) costs as a percentage of GDP across the globe. Average spending on social insurance in Eastern Europe and Central Asia (8 %) ranks as the second-highest region, after the OECD countries (13.2 %). Developing country regions spend on average between 1.4 and 8.8 percent on social insurance programs.

wage in 2005 (or 120% of the minimum wage). The Ukrainian pension system also has a relatively low retirement age—60 for men and 55 for women—requiring 25 and 20 years, respectively, to become eligible for a minimum pension. The early retirement age, as early as age 45 in some cases, puts additional financial pressure on the pension system.

In the run-up to the 2004 presidential elections, the minimum pension was increased from 43% to 120% of the minimum wage. This adjustment increased pension expenditures as a share of GDP from 9.2% in 2003 to 11.4% in 2004.<sup>53</sup> Increases in the subsistence minimum level upon which the minimum pension is calculated resulted in pension expenditures ballooning to 15.3% of GDP in 2005. These politically motivated increases have created further shortfalls for the pension system. In 2005, the pension deficit was 3% of GDP, up from 1% in 2004.<sup>54</sup> At 15% of GDP, Ukraine spends the highest amount on pensions in the region, and with a shrinking and aging population, pension costs can be expected to continue to increase rapidly.

Efforts to reform Ukraine's pension system began in Ukraine in June 1998 with the introduction in the *Rada* of the Law of Ukraine "On Mandatory State Pension Insurance." In July 2003 the Ukrainian government, supported by USAID, passed legislation to establish a three-pillar pension system. The legislation included:

- Pillar 1 (P1), a mandatory social insurance scheme designed to meet modern pension standards, a "pay-as-you-go" (PAYG) system that taxes current wages to fund current pensions;
- The structural design for Pillar 2 (P2), mandatory accumulation accounts, with the parameters and transition for this pillar to be developed later; and
- Pillar 3 (P3) for voluntary non-state pensions, the law for which became effective January 2004.

Pillars 2 and 3 are meant to be "fully funded," defined-contribution, individual account schemes managed by private fund managers. The Cabinet of Ministers approved the draft Pillar 2 law in December 2006, which passed a first reading in the *Rada* in April 2007. Modifications were deemed modest and affected only administrative implementation provisions. However, given Ukraine's present political uncertainty and the declining global economic situation, the schedule for enactment of this draft bill is impossible to predict. At conception, implementation of the P2 was to be conditioned upon achieving a balanced budget and long-run fiscal sustainability of the P1, establishing the operational systems required for the administration of the P2, and establishing a transparent capital market regulated broadly in accordance with international standards and best practices.

The P2 law is designed to fund a part of the public pension system to relieve pressure on the current P1 PAYG system, which is unsustainable due to Ukraine's rapidly aging population. The key P2 parameters, as initially envisaged, are a cutoff age of 40 for men and 35 for women, a contribution rate of 2% that will grow steadily to 7% in five years, and the investment of P2 funds in diversified assets. The primary goals of P2 are to: (i) constrain the growing costs of the pension system and (ii) finance part of workers' pensions through savings, rather than a direct income transfer from workers to retirees. Once adopted, P2 will mandate that each Ukrainian worker contribute to an individual retirement account. A secondary goal of the P2 is to generate substantial domestic long-term savings to fuel economic growth, but so far its introduction has been postponed to 2011 or even beyond.

P3 pension funds, introduced in 2004, are tax-advantaged, voluntary, supplemental, retirement savings. There are over 100 privately managed P3 pension funds, of which 50-60 are active, with about 408,000 participants. By most accounts, the P3 participation is low with only 2% of all eligible workers

---

<sup>53</sup> More recent IMF figures put this figure at 12.1% of GDP in 2004 (IMF 2008a).

<sup>54</sup> World Bank (2006b).

contributing to these schemes. Contributors may change their P3 pension schemes once every six months and receive their P3 pension benefit at retirement age or later. In some cases, the P3 pension benefit can be received earlier (currently limits are women ages 45-65; ages 50-70 for men). The P3 benefit options are: lump sum for small accumulations, phased payout (distribution over defined period of at least 10 years), and annuities purchased from an insurance company. P3 pension fund assets total \$80 million with an average account balance of \$200. With limited financial instruments in Ukraine, P3 pension fund assets invest primarily in domestic corporate bonds, bank deposits, and domestic equities.

With the support of USAID and other international experts, Ukraine has launched a second round of pension reform. This next set of reforms is designed to emphasize the pension system's vulnerability to population aging. Under the planned second set of reforms, the P1 accrual rate is to be cut by 25%, from 1% to 0.8% per year of service and employer contributions are to be reduced by 20% to 26.8% of wages. The minimum pension is to remain. However, both P1 and P2 pensions are to be combined to determine if the minimum pension level applies. Employees will contribute 7% of their wages immediately to their P2 accounts, which is a change from the proposal to initially contribute 2%, gradually increasing to 7%.

For P2 pensions, the availability of assets in which to invest is one of the two greatest challenges for the new pension system. Ukraine's capital market is not well developed. Even if 40% of pension assets (the amount permitted by law) were invested in foreign assets, the existing financial markets could not absorb the influx of capital anticipated, \$500 million estimated in the first year of operations and \$14 billion by year six. The government bond market and time deposits, the essence of Ukraine's nascent financial market, would be flooded with capital.

The second major pension reform initiative addresses pension privileges, which include early retirement and higher pension benefits for certain workers paid from the general budget, a throwback to the Soviet era. In Ukraine, 2.5 million workers out of 16 million are in so-called "privileged occupations," i.e. those viewed as hazardous and/or strenuous, such as miners or heavy industry workers. Existing pension privileges, as well as special and early retirement schemes, also include military personnel and civil servants. The total number of beneficiaries under the special pension schemes is around 5.5 million (11% of the total population and 39% of all pension beneficiaries). If adopted, privileged pensions will become funded occupational early retirement pensions (a bridge to the full retirement P1 and P2 pensions) with individual accounts funded with employer contributions and managed by P3 fund managers. Conversion of the privilege pensions to occupational pension P3 individual accumulation accounts is projected to increase the size of the P3 pension fund system by a factor of 15 or more.

Once the law is enacted, implementation of the pension reform will entail the following, at a minimum:

- Actuarial calculations to balance benefits with revenues in determining supplementary contribution rates;
- Large-scale public education campaign (a key element considering the largely financially illiterate population);
- Legislative additions and corrections;
- Regulations for private sector pension funds and operating rules for the public sector fund;
- Oversight procedures and regulatory reporting rules for both the private and public pension funds and pension fund service providers;
- Enforcement mechanisms;
- Mitigation of institutional resistance to new laws;
- Investment policy development;



- Additional government budget analysis and support; and
- Development of capital market infrastructure and investment vehicles.

In addition, pension reform success in Ukraine will require extensive capacity-building in the areas of contribution collection, recordkeeping, and business processes, if the implementation and operation of the P2 and the reformed occupational pension schemes are to be managed efficiently and effectively. And reforms will come with a price tag: the costs of transition and implementation will be a burden on the general budget at about 1.5% of GDP in the first year of operation.

The Government of Ukraine is considering a number of further changes to the pension system, for example (i) raising the retirement age to 62 for both men and women; (ii) tightening the opportunity to work and receive a pension simultaneously; (iii) gradually eliminating special and early pension regimes; and (iv) replacing the flat contribution for farmers and self-employed with minimum contributions in order to economize. However, such measures are temporary fixes. To date, efforts at long-term reform, i.e. to introduce a mandatory accumulation system to ease pressure on the PAYG program and voluntary private pension funds, have been half-hearted. While the budget crisis has awakened some political actors to the need for reform, it will also delay the government's ability to actually implement the reforms.

The new government that has come into power since the writing of this assessment has included pension reform as an issue for discussion with the IMF. But the GOU has been inclined to move slowly and carefully in part because of the implicit costs.

### **3.2.3 Labor Justice System**

#### ***Court System***

Cases involving most labor issues are subject to the jurisdiction of the general courts rather than to specialized labor courts. Appeals from the decisions of the general courts can be had in the Appellate Courts in *Oblasts*, Kyiv, Sevastopol, and Crimea; litigants can appeal the decisions of the *Oblast* courts to the Supreme Court. In some cases involving public servants or units of local self governance, labor cases may be filed in the specialized administrative courts, in the first instance at the local level, with appeal to the Appellate Administrative Court and final appeal to the High Administrative Court. Trade unions can represent their members in court in some cases; in particular they provide representation in dismissal cases. There are Offices of Attorneys at the *raion* (equivalent to a US county) level that provide free representation in criminal cases and consultation on civil cases at fees lower than those charged by private attorneys. The Office will not, however, represent an individual in court on a civil case.

The duration of legal proceedings depends on the complexity of the case, varying from one month to several years. In 2003, there was a case load of some 20,000 labor cases pending in the court system.

It is almost universally agreed that the court system lacks credibility and respect. Judges are viewed as corrupt, particularly in cases involving large sums of money. There are also questions concerning the qualification of judges.

#### ***Options for Resolving Workplace Disputes***

Workers rarely use the courts to resolve labor cases (with the exception of dismissals), viewing the courts as biased toward employers and fearing that they could be blacklisted from employment for suing their employer.

Where a worker is a member of a union, s/he can solicit the help of the union in trying to resolve disputes. In non-union workplaces, an individual can, theoretically, present a grievance directly to the employer but there is a reluctance to do this for fear of being seen as a “troublemaker.” In some cases, the employee has

the option of contacting the company “labor council” composed of heads of department and worker representatives. The attitude of many employers in response to grievances is one of “if the worker doesn’t like it s/he should leave.” There is no active informal dispute resolution system for individuals.

At the international level, both the FPU and the KVPU have filed complaints with the ILO Committee on Freedom of Association, and comments with the ILO CEACR concerning Ukrainian compliance with international labor standards. These unions are also affiliated with ITUC and the Global Union Federations, and have used these connections to publicize labor problems and apply pressure on the government to address labor issues. With the reinstatement of the US Generalized System of Preferences and the Overseas Private Investment Corporation options, Ukrainian unions will have an additional venue for enforcing compliance with core labor standards.

### 3.2.4 Government Institutions Strengths and Weaknesses

As noted in the introduction to this section, there is very little involvement from the political sector of the government, i.e. the *Rada* and the political parties. However, there is a fairly open political space for labor activism, and so opportunities exist on the demand side to better organize this activism to have a greater impact on the political process and democratic institutions. The multi-partyism that does exist in Ukraine provides an opportunity for labor activists to better leverage their mobilization skills to gain greater representation in the political process.

In terms of those institutions that are involved in labor issues, such as social dialogue and the Ministry of Labor and Social Policy, they have a history of being ineffective that dates back to the Soviet era. The judicial system is universally viewed as lacking credibility and corrupt. Government institutions treat non-union workers and workers in the informal economy with benign neglect. However, the Ministry of Labor and Social Policy does occupy a critical juncture in the modern political economy of Ukraine. Its deteriorating social safety net is called on to provide social protection for those most adversely affected by the global financial crisis. This most likely will exert pressures for the government to establish a new labor paradigm. The most pronounced exception to the lackluster performance of government institutions is the Public Employment Service within the Ministry of Labor and Social Policy, which uses modern technology and counseling methods to assist those who seek job leads, employment counseling, and business start-up advice., which is grappling with precisely such issues.

## 3.3 LABOR-RELATED ORGANIZATIONS

### 3.3.1 Trade Unions

There are approximately 25 trade union confederations and 124 national trade unions in Ukraine. The largest confederation is the *Federation of Trade Unions of Ukraine (FPU)*, with an estimated membership of eight to ten million workers. The FPU is the successor to the Soviet era unions, and as such it retained the property and other assets from that period, which account for approximately 80% of union revenue.<sup>55</sup> Membership dues account for the other 20%. Included in the FPU membership are enterprise managers and directors, along with enterprise workers. There are 45 national and regional trade unions affiliated with the FPU covering such sectors as aviation, automobile, nuclear power, construction, coal, energy, government, telecommunications, marine transport, shipbuilding, petrochemical, and social work. There are also 26 affiliated branch unions.<sup>56</sup> The President of the FPU is also a member of the *Rada* and a member of the Party of Regions.

---

<sup>55</sup> There is no available information concerning the valuation of the FPU's assets.

<sup>56</sup> For a discussion of a newer member of the FPU, see the text box on the following page.

In principle, the law provides for the right of workers to join unions of their choice and all trade unions have equal status under the law. In practice, however, the FPU has several advantages that has helped them organize workers more effectively than others in the past. For one thing, the FPU has strong ties with the government, which gives them an advantage in perceived access to decision-makers. Secondly, and most importantly, the FPU inherited most of the assets from the former Soviet sponsored unions, most notably their huge property and financial holdings (which include social insurance funds). At a time when the combination of the global economic slowdown and Ukraine's demographic shrinkage have led to strains on social safety nets, access to such important assets reinforces the FPU's power relative to the KVPU, which does not enjoy similar holdings.

In addition to having to overcome the above advantages of FPU affiliation, independent unions have also complained about the burdensome process of registration. A union must be registered as a legal entity by the government, even though since 2003 they no longer need prior approval from the Ministry of Justice to be established. Under the Law on Citizens' Organizations, which includes trade unions, the unions are exempt from interference from government authorities in their internal activities, but in practice there have been complaints about pressure from government officials, most especially the security services. In addition, employers have also shown a preference for FPU unions, and reportedly pressure independent unions to disband.

Collective bargaining practices also tend to favor FPU affiliated unions. According to law, joint worker-management commissions should mediate and resolve differences concerning wages, working conditions, and other labor issues. However, if there is a mix of independent and official (FPU affiliates) unions, then the FPU unions are almost always selected over the independent unions to represent workers in the collective bargaining process.

The most influential of the independent confederations is the *Confederation of Free Trade Unions of Ukraine (KVPU)*, with an estimated membership of somewhere between 240,000 and close to 270,000. There are nine national trade unions affiliated with KVPU including miners, teachers, workers of the railway, light industry, medical services, and metro, and 25 primary union affiliates. The President of the KVPU is also a member of the *Rada*, named as part of the BYuT list. The third largest confederation is

### Transport Drivers' Trade Union

Composition of the FPU is not homogeneous. A number of smaller, more recently formed, sector-specific unions have joined the Federation. One interesting example is the Trade Union of Private Bus Drivers/Taxi Drivers, which became a member of the FPU in 2007.

Initially established in 1994, the transport drivers' union participated in the last three Ukraine-wide strikes. The most recent was in November 2006 when, they claim, 100,000 participants blocked the roads in response to a government plan to reduce the number of taxi drivers. With about 35,000 union members in all regions out of an estimated 120,000 total taxi drivers in Ukraine, they see their role as protecting the rights of their members, who are self-employed as taxi drivers. They have been active in monitoring draft legislation proposed in the *Rada* (Draft Law on Automobile Transport, as of mid-2008) as well as regulations proposed by the Ministry of Transport and Communications. Legislation providing for simplified procedures for obtaining taxi driving permits was adopted in November 2008 following the union's efforts. Under the previous law, 80% of taxi drivers were working illegally because they could not comply. However, the union claims that government authorities still do not obey the new law.

Leaders of the private bus and taxi drivers' union say they chose to join the FPU because of its more developed structures, yet at the same time they see a number of changes as being critically necessary. They view the extremely centralized decision-making within the FPU as problematic. They would recommend instead that each member union be able to decide on actions of interest to their members and then to be able to request material or legal help from the Federation, or from other member unions, as needed. They highlighted the different, and sometimes conflicting, interests within the FPU, such as utility companies wanting to raise their rates and the teachers' union not wanting utility rates to be raised. If the individual unions were more active, serious conflicts would arise. Despite many public claims that the FPU protects its members, leaders of the transport drivers' union say that they do not feel the results. They also believe that trade union leaders should not be political party representatives, including the FPU president. In the future, they would welcome additional information about legal frameworks governing trade unions and the experience elsewhere in the world, including contacts with other unions outside of Ukraine, such as the ITUC.

the *All Ukrainian Worker Solidarity (VOST)*, with an estimated membership of between 70,000-135,000.

There are no official statistics concerning union density in Ukraine. An estimate based on the working population of 22 million divided by the combined membership of the FPU, KVPU, and VOST<sup>57</sup> yields a density of approximately 40%. This compares to density rates of 44% in Slovenia, 30% in Romania and Slovakia, 20% in Bulgaria, 17% in Hungary, and 16% in Poland.

Despite differences in ideology and outlook, common ground exists among the various unions with regard to the major issues confronting their membership: low wages and wages arrears; ineffective social dialogue; unsafe working conditions; anti-union discrimination and non-enforcement of labor law. A new concern created by the current financial crisis is the problem of worker layoffs, and the use of reduced workweeks and unpaid leave as a means of dealing with the layoff problem.

However, the Ukrainian unions in general need to do more to establish better links to their own membership base and even to wider grassroots. For example, the protest function of direct action through demonstrations, strikes, and rallies has been exercised by both the FPU and the KVPU. But a question remains as to the effectiveness of their ability to mobilize workers for protest. During the 1990s there was a flurry of protest actions which has significantly tapered off in the recent past. There does not seem to be sufficient bottom-up communication and consultation to ensure that union leadership is aware of the concerns of the members and thus can appropriately determine both the necessity and capacity for protest.

Both the FPU and KVPU also engage in some stewardship activities, providing service (such as representing members in court in dismissal cases) and some training activities. These latter activities, however, tend to stress trade union rights (in the case of the KVPU) or economic, management, and legal skills for trade union staff (in the case of the FPU). The FPU and the KVPU also have a history of engaging in communicative activities, such as expressing their support or opposition to policies, writing letters, giving news interviews, and hosting websites. On the latter point, both confederations make good use of their websites (available in both English and Ukrainian; although, as would be expected, there is much more content on the Ukrainian version), posting news stories, union newspapers, listing of events, union publications and documents, relevant legislation, and other types of information. As a general proposition, however, the media does not tend to report on labor issues unless it is a major story, such as a mine explosion.

### **3.3.2 Employer Organizations**

Organizations dealing with employer interests generally fit into one of three categories: employer associations, business associations, and chambers of commerce. Employer associations bring together business entities, regardless of sector or region, for the purpose of representing and promoting employer interests in the economic, social, and labor fields. It is usually this type of association that participates in tripartite social dialogue. Business associations bring together employers based on common interests, such as the Lviv Regional Association of Small and Medium-Size Business, or the European Business Association, a forum for discussion and resolution of problems facing foreign businesses in Ukraine. Chambers of Commerce focus on promoting local business, helping to create favorable business conditions, providing business education and training seminars for their members, and assisting local business members in protecting their interests. Membership is generally open to all businesses within a given geographic territory.

---

<sup>57</sup> This membership figure may be both overly small, given that it does not include the membership of the other 23 confederations, and overly generous, given that the membership figures for the three largest confederations are estimates, as well as the fact that approximately 20% of the FPU's membership is students and retirees.

Thirteen employer associations exist in Ukraine. The oldest and largest is the *Federation of Employers of Ukraine (FEU)*. The FEU operates on a territorial level, with geographic membership distribution by *oblast*. It has been a member of the International Organization of Employers (IOE) since 2003,<sup>58</sup> and represents Ukrainian employers to the International Labour Conference of the ILO. Its membership consists of 29 regional organizations, 15 national sectoral organizations, and 448 city, territorial, and sectoral organizations. The employers who are members of the FEU collectively employ about 5 million workers.

Two other employer associations are noteworthy. The *Confederation of Employers of Ukraine* was established in 2006. Its membership consists of two national employer associations and five sectoral employer associations. A third employer association is the *All Ukrainian Employers Association*, who primarily represents SMEs, but is active in only fourteen regions. Both are signatories to the UN Global Compact.<sup>59</sup>

While labor unions have a long history in Ukraine, employer unions are one of the newest actors in the labor sector. None existed under the Soviet system, since all companies were state-owned. The process of establishing employer unions, started in 1996, culminated in the passage of legislation establishing employer unions for the first time in 2001.

Key issues for employer associations include some issues over which employers have differences with workers that need to be negotiated, such as wages. Hourly minimum wages have been a topic of discussion; until now wages could only be established on a full-time or part-time basis, but not on an hourly one. But there are also numerous issues in whose resolution both workers and employers have mutual interests, especially with government support. These include general agreements, social insurance,<sup>60</sup> a revised labor code, business and competitiveness, public-private partnerships, research on the labor market, and training to improve worker qualifications.<sup>61</sup> Additional issues include concerns about the current economic situation and its impact on jobs and wages, and insufficient funds in the unemployment fund. Another important problem is the lack of true understanding by the government of civil society or social dialogue.

Employer associations also note a weak understanding by labor unions of economic and competitiveness issues. An anecdote shared by an employers' representative illustrates this limited understanding. During a workshop exercise in Ukraine organized under the Swedish Labor Dialogue program, Ukrainian labor union representatives expressed strong opposition to a clause that supported the need to "increase the competitiveness of employers."<sup>62</sup> What they did not know was that the point was excerpted from an actual industrial agreement from Sweden that Swedish labor unions had endorsed. The Swedish program was highlighted as having played a useful role in opening a space for dialogue between employers'

---

<sup>58</sup> The IOE is the only international organization that represents business interests in the labor and social policy field. In particular it works within the ILO system to ensure that labor standards promote the viability of business and are favorable to job creation.

<sup>59</sup> The Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment, and anti-corruption.

<sup>60</sup> Trilateral management of state social insurance funds by employers, trade unions, and the state (government).

<sup>61</sup> The Confederation of Employers has cooperated with The European Training Center, the World Bank, and the Ministry of Education on the development of a national qualification system and the development of a strategy for improving professional education.

<sup>62</sup> Sweden's international labor cooperation program, the Labor Market Dialogue, began in 2004 in Ukraine, led by representatives from Swedish employer and labor groups and funded by the Swedish International Development Agency. Its purpose is to promote tripartite social dialogue and build capacity of both employer and worker organizations abroad. Partners in Ukraine include Ukraine's two trade union organizations (FPU and KVPU), four employer associations (All-Ukrainian Employer Association, Confederation of Employers of Ukraine, Federation of Employers of Ukraine, Union of Leaseholders and Entrepreneurs), and representatives from the Ministry of Labor and Social Policy and the National Service for Mediation and Reconciliation of Ukraine.

associations and labor union representatives, and demonstrating how labor issues have been confronted in other contexts.

The oldest business associations in Ukraine were founded in 1989. Business associations exist at the local, regional, and national level. According to a survey of business associations conducted in 2005,<sup>63</sup> government bodies were viewed as the most important contributors to the problems faced by business; in addition, the survey found that Government institutions fail to properly enforce laws and regulations and are corrupt. The high tax rate for social benefits is also viewed as creating problems for business. Additionally, the poor defense of property rights was considered a problem—more so by national business associations than by local or regional associations. These results are similar to responses the assessment team received in interviews with representatives of business associations: corruption, complicated bureaucratic procedures for obtaining needed permits, and an ineffective court system were mentioned. All of these are problems which both labor and business have an interest in seeing resolved.

### **3.3.3 Civil Society Organizations**

CSOs in Ukraine by all accounts have grown a lot and have gained a voice in Ukrainian society. There are a handful of strong and influential public policy-oriented NGOs who are making strong leadership contributions. Aside from specific professional and trade associations, there are also a number of local NGOs addressing workforce development, gender discrimination, and trafficking issues. Yet few, if any, local NGOs address labor rights issues in Ukraine. Non labor-focused groups generally see labor unions as not being driven by their members but led in large part by former Communist directors-turned-union leaders. Many are unfamiliar with the distinction between traditional and “independent” trade unions, or see them as all equally corrupt, unprogressive, and unrepresentative of the interests of workers. There are few links between various labor unions and other NGOs.

Both confederations need to be educated about the necessity for creating collaborative relations with other CSOs. While they have a relatively good track record at working with international labor groups, there is very little collaboration with non-labor focused groups. This is certainly due, in part, to the fact that the union movement does not understand the need to reach beyond the confines of traditional workplace issues. Unions would be able to participate more effectively as a component of civil society were they to expand their focus beyond the immediate domestic workplace issues to embrace a macroeconomic view encompassing the impact of the international financial institutions, multilateral and bilateral trade agreements, and issues relating to economic development.

### **3.3.4 Labor-Related Organizations Strengths and Weaknesses**

The main labor confederations have respective strengths, but share some key weaknesses, especially when it comes to effectively engaging in the political process to pursue their interests. On the plus side, both the FPU and KVPU have strong base constituencies. The FPU’s large membership base and financial resources provide high public visibility and strong organizational capacity. It operates an Academy of Labor and Social Relations in Kyiv, a higher educational institution focusing on economics, social management, law, and the improvement of the professional skills of trade union staff, as well as the Kharkiv Social and Economic Institute, providing post-graduate education for trade union staff. The FPU also employs a staff of experts.

The KVPU is viewed by many “third parties” as more relevant, active, and modern than the FPU. It has a strong membership base in the east, especially in the mining sector. As an independent union it does not admit managers or directors to membership, enabling it to more readily confront employer decisions

---

<sup>63</sup> UCIPR 2005.

which negatively affect the workers. Its reliance on membership dues results in more active representation of member concerns and enhanced communication with the membership.

Labor unions in Ukraine also share some weaknesses. They appear to have little influence on government policy. This is attributable in part to the lack of effective tripartite social dialogue to provide for input, but it is also partly due to union reluctance to engage at the political party level. Neither union has a real sense of how to engage in political advocacy or the importance of lobbying for labor issues. While both major confederations are aligned with political parties (the FPU with the Party of Regions and the KVPU with BYuT), this alignment is very much a one-way street, with the political parties deriving benefit from the support of trade unions but the unions neither demanding nor receiving any visible support from the parties on labor-related issues. Neither political party seems particularly concerned about advancing a labor/trade union agenda. Secondly, both FPU and KVPU possess a relatively narrow vision of their purpose, limiting their focus to bread and butter issues of their membership. Neither union was concerned with problems faced by workers in the informal sector, or by non-union workers. There was no appreciation for the responsibility to advocate on behalf of workers in general. This narrowness of vision also results in limited collaboration with other CSOs. In short, despite the fact that the principal labor organizations have strong membership bases, the unions have not yet succeeded in leveraging their strength into effective influence over public policy-making. Work could be done on both the supply and demand side to render policy-making more responsive to input from labor organizations. The union confederations need both to become more representative of their own base and more effective in advocating for their interests.

The current economic crisis complicates matters further. Several special parliamentary sessions took place at the end of 2008, including one on “Labor and citizens” on December 10, 2008, at which the FPU announced national protests to take place December 17-23. Between 5,000 and 15,000<sup>64</sup> trade union representatives reportedly took part. While potentially a genuine effort to advocate for workers rights, some observers see such efforts as being orchestrated by Party of Regions leadership to use union membership protests to discredit the current “Orange” government and earn political points in the run-up to the parliamentary and presidential elections expected to take place in 2009. However, one of the demands of the protest action was the setting of the minimum wage at not less than the subsistence level, which the *Rada* enacted beginning on January 1, 2009.

In sum, there is ample room for improvement in regards to the interactions between labor unions and political parties, between unions and CSOs, and between the unions and employer associations. Indeed, by working to ensure that political parties more effectively represent their interests, the unions could strengthen the political process itself. Given the internal structures and incentives of the party apparatuses, though, the area of cooperation most likely to succeed in the near term is between unions and employer associations, perhaps in tripartite frameworks also involving the state.

### 3.4 LABOR MARKETS IN UKRAINE<sup>65</sup>

#### 3.4.1 Labor Force Participation

Negative demographic changes described earlier (severe depopulation, population aging, poor health of population, and out-migration of working-age persons) have exerted negative effects on the size and

---

<sup>64</sup> “Thousands March to Warn Ukraine Government on Moves”, *Kyiv Post*, December 23, 2008 and press release of the Ukrainian FPU, dated December 25, 2008.

<sup>65</sup> This section draws heavily from a labor market review of Ukraine prepared for the European Training Foundation (ETF) (Kupets et al. 2009).

composition of the labor force. Labor force participation rates began to inch up very slowly in 2003, but are still lower than in 2000.

**Table 5: Ukraine Labor Market Structure, by Age & Gender**

(% of labor force)	2000	2007
Total	63.2	62.6
Female	58.4	57.1
Male	68.5	68.9
15-24 years	40.1	41.8
25-29 years	84.7	82.2
30-34 years	87.5	84.4
35-39 years	88.2	87.3
40-49 years	87.1	84.5
50-59 years	65.1	63.3
60-70 years	19.8	21.6
F 15-54 years, M 15-59 years	73.7	71.7
Urban	63.9	61.6
Rural	61.5	65.1

*Note: "Working age" is defined in Ukraine as 15-54 years for women and 15-59 years for men*

*Source: State Statistics Committee, from Kupets et al. (2009), Table A.1*

Only two age groups—Ukraine’s youngest (15-24 years) and its oldest (60-70 years)—have experienced increases in labor force participation rates (TABLE 5). Analysis of employment in the formal and informal sectors reveals that this increase in participation rates is attributable to more frequent involvement of young and old persons (especially in rural area) in informal activities. The observed decrease in participation rates in the prime-age groups is explained mainly by the decline in female participation rates, in particular due to a significant increase in the number of dependents and/or housewives. Thus, low labor market demand manifests itself in rather low labor force participation rates and labor migration outflows, rather than in high and stagnant unemployment.

Labor market prospects (in terms of both wages and employment) generally improve with education. However, because of the surge in the number of young persons with tertiary education entering the labor market during the last years, on the one hand, and increase of labor demand on manual skilled and unskilled workers, on the other hand, there exists an oversupply of persons with tertiary education (mainly, economists, low- or middle-level managers, and lawyers) on the labor market. This not only explains higher shares of young highly-educated persons in total and long-term unemployment, but also accounts for a large number of overqualified workers, i.e. persons with university degrees employed in jobs that are traditionally performed by persons with lower educational attainment.

There is clear evidence of substantial skills mismatch in Ukraine: a shortage of some skills coexists with the excess supply of other skills. One supply-side explanation is the lack of responsiveness of the national education system to labor market needs and a virtually destroyed system of career guidance. Yet the problem is also linked to rigidities in wage structure. Although upward pressure on wages in the face of skills shortages is being felt across new EU member states in Central and Eastern Europe, in Ukraine, “despite strong demand, salaries awarded to professional workers are relatively low” (Rutkowski 2008, 7). Rutkowski speculates that professional wages in Ukraine’s private (or newly privatized) sector are still greatly influenced by the government-determined wages, which are low, set for employment in public and state-owned enterprises. Another source of wage rigidity is the wage grid determined in the General Agreement and subsequently in sectoral, regional, and collective agreements.



### 3.4.2 Employment, Underemployment, and Unemployment

Distribution of employment around the country is imbalanced. Huge regional disparities exist. Before the onset of the global economic crisis in late 2008, some parts of the country—Kyiv, *oblast* centers, and eastern regions—were experiencing boom times and labor shortages, while other regions were already suffering from high unemployment, low wages, and weak economic development (mainly, western regions and small towns/rural areas).

The overall employment strategy in Ukraine is linked with the current political priorities rather than with the long-term development agenda of the relevant sectors (economy, education, social, and demographic policy). Because of frequent changes of the government, policy focuses on short-term objectives that provide political dividends, rather than on medium- and long-term goals.

As a result of economic restructuring and corresponding changes in labor demand, the occupational structure of employment in Ukraine changed considerably between 1998 and 2007. The share of white-collar workers decreased from 40 to 35%, while the shares of blue-collar skilled workers and unskilled workers increased from 36 to 40% and from 24 to 25%, respectively. The very high share of unskilled occupations suggests that development of the Ukrainian labor market lags far behind developed and transition economies and is more comparable to developing countries, where many people are employed in unskilled or semi-skilled jobs.

Job growth that started in Ukraine in 2002 has been largely driven by the expansion of the informal sector and self-employment, with the bulk of such jobs created in subsistence farming in the rural areas and low-productivity activities, such as trade and repair, hotels and restaurants, motor transport, and individual services, as well as self-employed but unregistered professional activities, in urban areas. Based on Labor Force Survey statistics, informal sector employment is estimated to encompass 4.6 million people, or nearly one-quarter of total employment (Kupets et al. 2009, 104). Only in 2006 and 2007 has this growth been accompanied by employment growth in construction and modern services sectors such as financial intermediation, real estate, and business activities. Despite the growth of modern services sectors, the jobs that are created are predominantly for skilled manual workers, such as craftsmen and related workers, plant and machine operators, and assemblers and unskilled workers.

**Table 6: Ukraine’s Unemployment Rates**

Year	Population	Labor Force	Unemployment			
			ILO methodology		SES Registered unemployment	
			#	%	#	%
2000	49430	21151	2630	12.4	1179	5.6
2001	48923	20894	2440	11.7	1063	5.1
2002	48457	20670	2129	10.3	1028	5.0
2003	48004	20618	1994	9.7	1024	5.0
2004	47622	20583	1888	9.2	976	4.7
2005	47281	20482	1595	7.8	892	4.4
2006	46930	20546	1514	7.4	785	3.8
2007	46646	20606	1417	6.9	673	3.3
2008	46373	20676	1424	6.9	596	2.9

*Note: Figures are presented for 15-70 year olds.*

*Source: State Statistics Committee*

The scale of underemployment (defined to include two indicators tracked by the State Statistics Committee, i.e. involuntary part-time employment and administrative, unpaid leaves) has diminished

substantially since the late 1990s but is still considerable. The incidence of involuntary part-time employment was 4.4% of the number of staff employees in 2007, while the incidence of administrative unpaid leaves was 1.1%. Taking into account the impact of the current economic crisis, both indicators of underemployment as well as the incidence of wage arrears are expected to increase by the end of 2009.

Ukraine's unemployment rates are estimated in two ways (TABLE 6). The "registered unemployment rate" measures the number of working age unemployed who are registered at the SES, compared with the working-age population. The second rate reported by the ILO measures the numbers of unemployed people, ages 15-70, defined by the ILO as those without work, currently available for work, and seeking work.

Registered unemployment figures can be misleading, because some portion of the unemployed typically withdraws from labor force participation, rather than actively seeks work, and some of the unemployed actively seek work but do so without the help of the SES. In 2008, 596,000 Ukrainians (or 3% of the total working age population) were registered as unemployed with the SES. Unemployment benefits averaged 571 UAH per month.<sup>66</sup> Using the ILO methodology, however, reveals an unemployment rate of 7% for 2008. As the effects of the global economic slowdown persist, the rate of unemployment is expected to rise, perhaps significantly, into 2009.

### 3.4.3 Wages and Non-Wage Labor Costs

Although the pattern of declining real wages reversed in 2001, real wages grew at a much faster rate than did labor productivity. The source is rapid growth of wages in the public sector, due to regular step increases in the minimum wage, against which most public sector wages are indexed, and implementation of the unified wage grid for public sector employees. Wage growth in excess of productivity growth in recent years has likely contributed to sluggish labor demand and a decline in the competitiveness of domestically produced goods and services. However, as noted below, the principal concern of workers remains not wages per se, but their low purchasing power, as rising consumer prices (especially food prices) lead to a fall in real income.

The rapid growth in both GDP and real wages, accompanied by virtually no growth in wage employment suggests that Ukraine's recent economic boom benefited workers employed in the formal sector (insiders), at the cost of unemployed, marginal workers and those engaged in various forms of quasi-employment (outsiders).

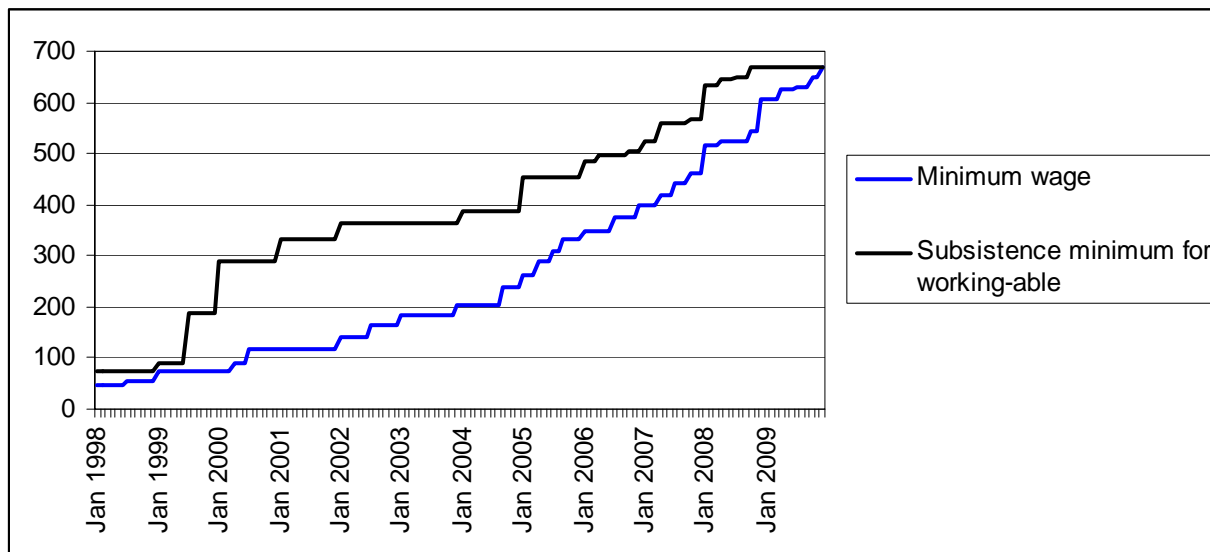
Ukraine's Constitution defines a "subsistence minimum" as the reference income for assuring minimum acceptable living standards. The *Rada* sets the quarterly levels of the subsistence minimum for the total population and specific age groups with differing consumption needs in the annual State Budget Law. Ukraine's subsistence minimum is defined as the cost of the basket of foods deemed sufficient for normal and healthy human activity *and* the minimum set of other consumption necessities (goods and services). The subsistence minimum set for persons unable to work is also used to establish minimum pension levels. In addition to the subsistence minimum benchmark, a minimum wage is also set. The levels of both the subsistence minimum and the minimum wage are set annually in the Law on the State Budget of Ukraine, updated as macroeconomic conditions require. Public sector wages and most wages covered by collective bargaining agreements are often indexed to the minimum wage. Although the minimum wage and the subsistence minimum for persons able to work should be the same, in practice, they have not been, with the minimum wage lagging behind the subsistence minimum and thus unable to afford an individual the minimum standard of living defined by the law. The 2006 law fixing the minimum wage at

---

<sup>66</sup> According to the State Statistics Committee of Ukraine, [http://www.ukrstat.gov.ua/operativ/operativ2008/rp/sz\\_br/sz\\_br\\_e/zb\\_2008e.htm](http://www.ukrstat.gov.ua/operativ/operativ2008/rp/sz_br/sz_br_e/zb_2008e.htm), accessed January 19, 2009.

the subsistence minimum level for persons able to work was supposed to become effective in January 2009. The need to push for parity was mentioned as a “hot” issue by many with whom we spoke.

**FIGURE 7: POVERTY LINE & MINIMUM & SUBSISTENCE WAGES IN UKRAINE**



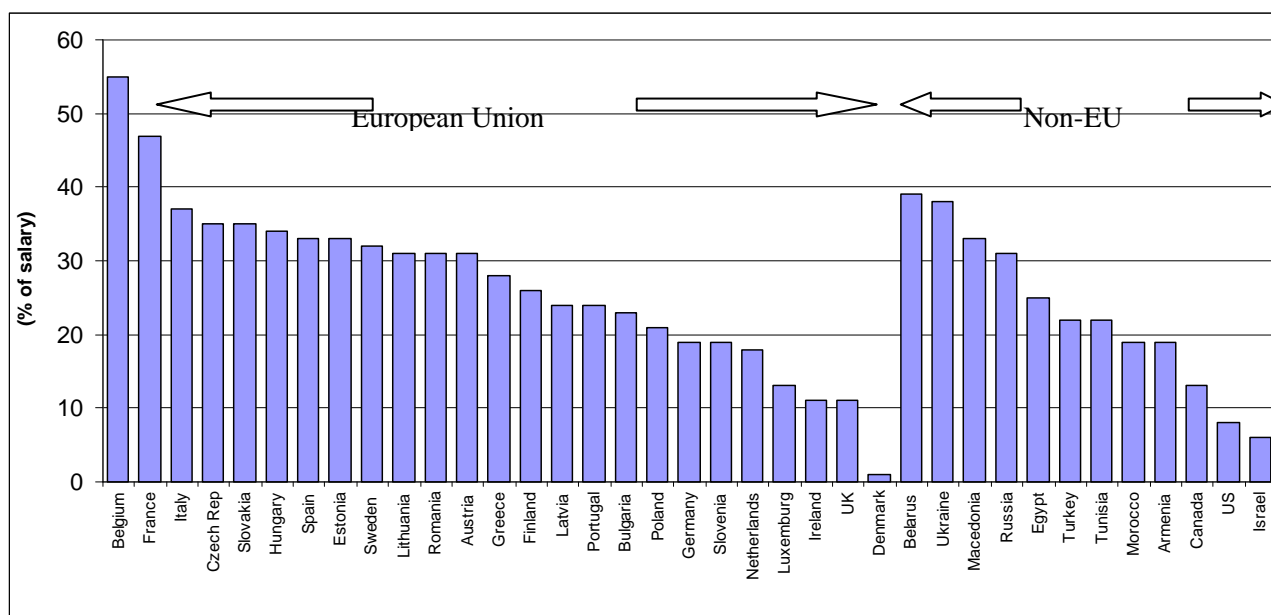
Source: Kupets et al. (2009), World Bank (2007)

Distinct from both of these is the absolute poverty line, defined to be the cost of a food basket *only* providing 2,500 calories per day per individual.<sup>67</sup> Moreover, the composition of the poverty line’s food basket differs from that of the subsistence minimum. The former relies more heavily on carbohydrates than more expensive meats and produce. Ukrainians do not associate the subsistence versus minimum wage discussion with the poverty line. As one observer put it, “Absolute, severe poverty is not an issue in this case because it is believed in our society that a working person should not be among the poor persons.” The poverty line was established as 151 UAH per person per month in 2003, and is shown in relation to the two wage levels in Figure 7. The poverty line has been updated for annual consumer price inflation since 2003.

Non-wage costs of Ukrainian workers appear quite high when compared across countries (Figure 8). The 2008 *Doing Business* report indicates that social insurance payroll deductions paid by the employer are equal to 38% of gross wages paid in Ukraine; for a breakdown of these contributions, see TABLE 3 in the Social Protection section above. The system seems to be caught in a vicious circle: social fund contributions are high in part because declared wages are so low (see discussion elsewhere of “envelope wages”), but declared wages are so low in part because the mandated social fund contributions are so high.

<sup>67</sup> World Bank 2005b.

**FIGURE 8: NON-WAGE LABOR COSTS AS % OF SALARY**



Source: *Doing Business 2008*

### 3.4.4 Informal Employment

The distinction between formal and informal employment is not sharply defined in Ukraine. Formal jobs may represent “good jobs,” with guaranteed labor protections and higher wages, but informal employment may offer other advantages in terms of subsistence insurance, job flexibility, or the ability to gain entry-level job experience. Self-employment can be formal or informal, depending on the individual’s compliance with all registration and tax obligations. Seasonality of employment, which is particularly predominant in Crimea, also drives workers into informal activities.<sup>68</sup>

It is important to note as well that in Ukraine, as elsewhere, even the formally employed may receive only a portion of their salary as a formal, registered remuneration, with another share paid informally as so-called “envelope wages” (as much as half or two-thirds of total compensation may be received this way). Such a practice is in many ways preferred, because it is therefore not subject to payroll withholding taxes, but it also reduces the employee’s declared wage base with respect to calculation of unemployment and pension benefits.

Most workers in Ukraine are formally employed, salaried workers; 61 percent rely on salaried employment for their primary livelihood source.<sup>69</sup> For some of those who are not, informal employment is a choice (so-called “voluntary” informal employment), because of the flexibility that such employment allows. Yet even among the formally employed, a variety of “secondary strategies” complements individuals’ primary jobs. These informal strategies to supplement formal wages and benefits include self-provisioning (e.g., gardening, self home repair), unpaid community exchanges of services, and self-employment in undeclared work.

<sup>68</sup> Crimea’s labor market and trade union issues mirror those observed in Kyiv, Donetsk, and Lviv in general. However, because of the dependence of the local economy on agriculture and tourism, much of the Crimean workforce is only employed for 3-4 months of the year. This keeps total wages and the standard of living low for many Crimean households.

<sup>69</sup> Williams and Round 2007, 431.

Other factors that contribute to the rise in informal employment include low retirement pensions that vary little with regard to actual earnings and thus contributions made during one's work life. This provides little incentive to the worker to be employed in the formal sector. The weight of payroll contributions discourages employers from formally hiring new employees. Rather, these factors encourage various forms of quasi-employment and informal activities.

### 3.4.5 Migration and Trafficking

As mentioned above, migration from Ukraine into both Russia and EU countries had been significant, especially during Ukraine's bleakest years in the 1990s. More recently, the booming economies in both directions continued to draw Ukrainian labor out of the country. Estimates of between 2 and 7 million Ukrainians working abroad have been reported.<sup>70</sup> Men are almost twice as likely as women to work abroad. Those who have migrated, on the whole, tend to be better educated (with at least a basic, if not completed, secondary education). Russia is by far the most likely destination (nearly 50% of all Ukrainian migrants), while the Czech Republic is a distant second-place recipient of Ukrainian workers.

According to the US State Department's 2008 global trafficking report, Ukraine remains a Tier 2 country, acting as a source, transit, and destination country for men, women, and children trafficked transnationally for the purposes of commercial sexual exploitation and forced labor.<sup>71</sup>

### 3.4.6 Labor Market Strengths and Weaknesses

Among the notable strengths in Ukraine's labor market are the reasonably high levels of education of the Ukrainian workforce, the diversified and rather industrialized economy that offers a panoply of career options to youth, proximity to the Russian and European markets that allows for facile out-migration if demand in the domestic labor market is weak, a rather modern active labor market program run by the Public Employment Service to provide services to the unemployed, and a commitment of authorities to maintain minimum wages at or above subsistence levels. The late 2008 fall in the value of the hryvnia will help to accentuate the competitiveness of Ukraine's labor costs.

However, among the labor market weaknesses we note that growth in the SME sector—and thus in employment by SMEs, which is typically a vibrant creator of jobs in more established economies—is still sluggish due to stalled progress on business environment reforms. This is thus yet another potentially fruitful area for collaboration between business and labor in advocating for reform. The persistence of an “informal formal” employment sector in which formally employed workers are still partially compensated with envelope wages and thus whose rights and wages are not fully protected is troublesome. The lack of communication between the education and training sector, on the one hand, and employers, on the other, whether through workforce councils or the creation of competency frameworks by occupation or other workforce development programs, coupled with the limited transmission of wage signals to new job seekers, means that youth/students continue to target unrealistic career aspirations and neglect to invest in technical and vocational skills acquisition.

---

<sup>70</sup> Zimmer 2007.

<sup>71</sup> In order to engage in diplomatic dialogue with partner countries about human trafficking abuses, identify and punish traffickers, and assist their victims, the US Victims of Trafficking and Violence Protection Act (TVPA) of 2000 (as amended) requires the US State Department to categorize countries annually into one of three lists, commonly referred to as “tiers.” As described in US State Department (2008a), the categorization is made according to an evaluation of the extent to which a government seeks to combat trafficking, rather than the breadth or depth of the trafficking problem itself. Governments that are believed to fully comply with the TVPA's minimum standards for the elimination of trafficking are placed in Tier 1. Tier 2 includes those countries that are making significant efforts to meet the minimum standards. Governments that do not fully comply with the minimum standards, and are not making significant efforts to do so, are placed in Tier 3 and may be subject to diplomatic sanctions.

Another weakness is the disconnect between productivity and wage levels. Because of traditionally high unionization and collective bargaining coverage in industry and a centralized approach to wage determination, employers have been forced to increase wages without considering productivity indicators. SMEs, whose interests are usually not taken into account during bargaining processes at the national and sectoral levels, seem to be disproportionately hit by the cost of labor rising ahead of productivity gains.

Perhaps one of the most significant weaknesses of Ukraine's labor market is the growing gap between social security mechanisms, most notably pensions, and the numbers of workers needed to support such entitlement programs. Already the non-wage labor costs such as the pension system have distorted the wage structure by driving formal remuneration rates downwards. This situation will increase pressures for reform, increasing the potential for labor to increase its ability to advocate through the political process.

# 4.0 THE ROLE OF THE LABOR SECTOR IN OVERARCHING DEVELOPMENT THEMES

Given the array of USG diplomacy and development goals in Ukraine (Section 2) and the rich and complex labor sector observed there (Section 3), this section lays out how engaging in labor issues cross-sectorally, i.e. by integrating legal, political, social and economic dimensions, can improve the efficacy of strategic approaches to USG programming. We focus here on the three largest areas of the USG program in Ukraine (details given in Section 5): peace and security, governing justly and democratically, and promoting broad-based economic growth.

## 4.1 PEACE AND SECURITY

Ukraine is not *prima facie* a first-tier security concern for the US. It is not a current or likely future key node in the Global War on Terror, nor is it a country where violent anti-American sentiment of any kind is particularly strong. However, in a less apparent, but not insignificant, way, the future of Ukraine has substantial bearing on broader US security interests.

Ukraine's North Atlantic Treaty Organization (NATO) aspirations do not seem likely to move forward any time in the immediate future, but if they were to join NATO they would immediately become one of the largest countries in the alliance. As a NATO country, Ukraine would be an important ally of the U.S. Ukraine is a large, resource rich country with a powerful military and, until recently, a growing economy. It is also, perhaps more than any other country pulled between the west and Russia. In any struggle for influence between European/American institutions and interests and those of Russia, Ukraine is by far the most important country.

The 2008 war between Russia and Georgia has only heightened Ukraine's strategic interest, but it has also raised potential security-related issues for Ukraine which are of import to the United States as well. President Yushchenko's support for Georgia in that conflict was strong and unequivocal, but it was somewhat controversial in Ukraine where support for, and warm feelings towards Russia, are not uncommon, particularly in the eastern part of the country.

The increased Russian presence in the Autonomous Republic of Crimea following the war with Georgia has raised concerns of further Russian efforts to incorporate it into its sphere of influence. While a land grab of the type Russia did in South Ossetia and Abkhazia is not likely in Crimea, it can certainly not be ruled out. If Russia further asserts its power in Crimea, where it has already begun to distribute Russian passport to some residents, it will likely contribute to weakening or destabilizing Ukraine and further raise tensions between the US and Russia.

Labor issues have an indirect impact on peace and security issues in Ukraine. A Ukrainian workforce that is more fairly compensated and represented will likely bring greater stability and prosperity to Ukraine, as well as reduce both incentives to emigrate (legally and illegally) and vulnerability to trafficking. However, the absence of this has not been a leading contributor to Ukraine's current low level of instability.

Better representation and protection for workers, not just legally, but in practice as well, will be necessary for greater integration of Ukraine into Euro-Atlantic institutions, which will improve Ukraine's overall security. This is because such integration is generally conditioned on adherence to both human rights (including labor rights) and democracy norms.

As the economic crisis worsens it is possible, but far from certain, that there will be greater unrest, including from underpaid, underemployed, and unemployed workers in Ukraine. Creating avenues for these people to raise their concerns and articulate their needs will be important should this unrest occur. In December 2008, for example, the FPU organized mass demonstrations in Kyiv to protest employment and pensions cuts. However, it is worth noting that previous periods of economic dislocation in recent Ukrainian history have not led to widespread labor unrest. But as the social entitlement programs become unsustainable in light of the downward demographic changes, the country will face hitherto unknown vulnerabilities.

## **4.2 GOVERNING JUSTLY AND DEMOCRATICALLY**

Ukraine's political party system is complex, and in some respects, deceptive. On the positive side, in the years since the Orange Revolution, Ukraine has developed a stable party system of two major parties or party blocks, the Party of Regions and BYuT (in which the main political party is Bat'kivschyna), and several smaller parties or blocks, primarily Our Ukraine, the Lytvyn Bloc (the People's Party, led by Volodymyr Lytvyn is the largest single party therein), and the Communist Party of Ukraine. However, while competition for control of the *Rada* and the government is intense, party competition is characterized largely by regionally based party allegiance and issues of national identity rather than competing policies and visions. To a great extent, although the two major parties have very comparable support, Ukraine is more accurately described as a system of competing patronage systems than a competitive issue-based multi-party system.

Programs that help develop issue and advocacy based links between political parties and labor unions, as well as those that help parties develop platforms on labor sector issues and link those platforms to both policymaking in the *Rada* and party development outside of the legislature, can ground democracy and governance work and contribute to the development of a more responsive and issues-oriented political party system. Labor programming can thus be used to both strengthen the representation of labor in the political process in addition to improving the labor enabling environment itself.

Another way that labor sector programming intersects and contributes to the overarching goal of Governing Justly and Democratically is in regards to civil society development. The findings of this assessment indicate significant political space for civil society activism, including by independent trade unions. As with the political process, labor sector programming can also contribute to the enhancement of civil society's ability to advocate on behalf of labor rights. Such potential is particularly pronounced when it comes to pursuing interests that are common to both labor and business associations.

What is it about the trade union movement that positions it to fulfill the strategic democratizing functions of CSOs so effectively? Firstly, the sheer size of a domestic trade union movement as compared to other domestic CSOs creates the potential for far-reaching impact on both the elites and the grassroots. In Ukraine, there is no CSO whose dimension even closely compares to the membership size of the union movement. Secondly, in most independent trade unions, internal democracy is strong, with the leadership elected by, and answerable to, the members. This contrasts with the majority of CSOs. The range of



issues addressed by a combination of CSOs and the trade union movement is potentially extremely broad, extending beyond the interests of its members and the narrow confines of the workplace. In many developed countries, the trade union movements traditionally lobby for legislation, such as minimum wages and safety regulations, that benefits not only its membership but all workers. The issues addressed by trade unions in many countries have extended beyond the workplace to include civil rights, affordable housing, educational improvement, and civil liberties. As previously noted, however, one of the weaknesses of the Ukrainian trade union movement is its limited perspective on the range of issues it addresses.

Finally, labor programming could also contribute to improved executive and judicial branch operations in several ways. Expanded training of unions in techniques for effective political advocacy can allow them to lobby for strengthening of the Ministry of Labor, through improvements in the quality of inspectors and assurance of adequate funding for effective labor law enforcement. Similarly, advocacy by unions could focus on improving judicial operations, through decreases in the backlog of labor cases and improved oversight to ensure that labor cases are decided on their merits. Improving communication between union leadership and members can educate the latter about why improvements to the Ministry of Labor and the judicial system are important to them, which in turn underscores to members the importance of political engagement to effect changes aimed at improving their working lives.

### **4.3 ECONOMIC GROWTH**

For the last 15 years, the EG priority in the former Soviet Union countries has been the transition from central planning to a market-driven economy. Macroeconomic stability; privatization and restructuring of factor markets (especially land and capital markets), production, resource allocation, and systems for distribution of goods and services; reorientation of trade with a broader set of partners in regional and global communities; and adoption of international product and economic governance rules and standards, have absorbed significant attention. Modernization of social protection schemes has also been a priority.

Labor is the oft-overlooked factor of production within EG programs. Yet lessons drawn from around the globe suggest that failure to incorporate an explicit labor focus into EG programs can jeopardize the accomplishment of EG goals. For instance,

- If labor relations between workers and management within firms and industries are not cooperative, firms may have difficulty meeting production standards and market deadlines because of disruptions in production;
- If unions do not understand the competitiveness pressures under which their employers must operate, they may not be willing to accept industrial re-engineering to improve workflow;
- In companies where the rights of workers are not respected by management, international buyers may be reluctant to place orders;
- If employers do not compensate workers within the rules of the labor law or if workers do not feel that they have a say in some dimension of workplace decision-making, workers may not feel committed to their workplaces, with possible negative repercussions for productivity;
- If education and training systems do not pay attention to signals from the private sector regarding the skills profiles they require, then youth and students may enter the workforce ill-equipped to meet employers' needs. Unions, with their more direct connection to the workplace (than education and training institutions), can offer vocational skills training to members, as witnessed in Lviv;

- And if social protection systems exacerbate fiscal instability or the lack of western-style, private-contribution pension systems prevents new sources of capital from entering financial markets, then growth may be stymied; and
- In a large country like Ukraine, a well-compensated labor force ensures appropriate supply of skills in the domestic labor market.

These examples all indicate ways in which addressing labor sector issues can contribute not only to labor sector goals in their own right, but also make critical contributions to broader EG objectives.

#### 4.4 TENSIONS AND SYNERGIES AMONG THEMES

Sometimes the stove-piped nature of development and diplomacy objectives inadvertently pits one priority against another. In some instances, the fact of limited resources encourages an “either/or” mentality: should we design programs that focus on labor rights “or” economic growth, work with civil society organizations “or” trade unions? Sometimes these tensions have real, unintended consequences: unions’ push for higher wages may unintentionally lead to employment reductions or investments in capital- rather than labor-intensive methods of production. Or, the push for increased capacity of union leaders to organize their members may unintentionally create a more confrontational, rather than cooperative relationship with management or ownership that threatens the stability of the business environment and thus competitiveness. On the other hand, sometimes the highlighting of tensions can also help to identify areas of synergy within and among labor-related and political and economic objectives. In other cases, programs may wish to consider not only direct support for labor organizations, but also how to work through labor-related organizations in other DG and EG areas in a way that indirectly supports (and thus strengthens) them.

An important tension to be noted in Ukraine is the need to balance the fragility of Ukraine’s current political system against the unknown risk associated with strengthening new political variables, such as labor or private sector business. Strong divisions exist in Ukraine about national identity, foreign policy, regional power, and other less pressing issues. Ukraine’s still nascent democratic institutions can barely sustain these tensions. Given the extreme fragility of the Ukrainian political system, the introduction or highlighting of more cleavages, even rational sounding economic ones like labor- and business-related issues, could—instead of giving voice to important issues—simply be the final straw that tears the political system apart.

Another unintended consequence of which development professionals need to be mindful in Ukraine has to do with the strengthening of the social protection system and potential consequences for formal employment. To the extent that payroll costs associated with pensions, health insurance, and other programs rise, an incentive is heightened to avoid such costs by compensating staff through undeclared wages. As workers are increasingly remunerated through “envelope wages” in Ukraine they may become increasingly vulnerable to loss of other labor code-related protections. One strategy to minimize this risk is to increase the likelihood of inspections or audits by government finance authorities and to enforce penalties for those who fail to adhere to labor and tax laws.

Within civil society strengthening programming, it was observed that some organizations that have received USG support in one area are now diversifying the services they provide into labor-related areas. For instance, women’s organizations in Ukraine, several of whom have been strengthened by USG support of anti-trafficking initiatives, have begun to provide career counseling and skills training to women who participate in their programs. In Lviv, one of these women’s organizations now collaborates with Ukraine’s Public Employment Service to provide active labor market program support to women workers. In an effort to increase client outreach, the women’s organization reached out to labor union leadership in Lviv. Labor unions might also consider making their services and outreach capacity available in similar collaborations with both the SES and the women’s civil society groups.

Three areas that lend themselves to more synergistic outcomes in Ukraine are noted below, and described in greater detail under Strategic Considerations in Section 5. For instance,

- Labor unions are either absent from, or play an extremely limited role in, both civil society and political development programs. They hence do not represent workers' interests in important democratic and development processes, leaving workers without effective voice in the outcomes;
- Consideration of labor sector issues could be further strengthened in local economic development and competitiveness programs; and
- Continued support for pension system reforms to put it on a more sustainable footing will allow Ukraine's elderly to retire with dignity, improve their standard of living, and safeguard the social safety net for current and future workers.

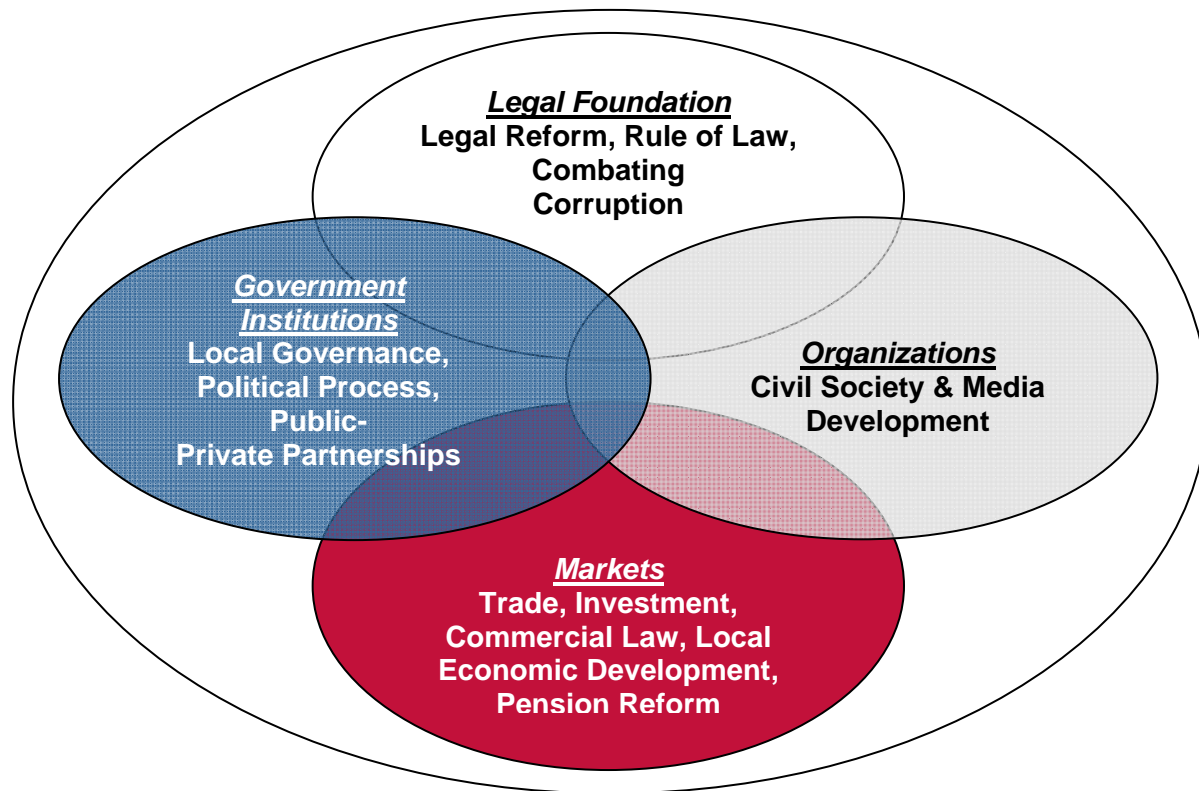


# 5.0 STRATEGIC CONSIDERATIONS

## 5.1 FOREIGN ASSISTANCE CONTEXT

Identifying strategic considerations for future programming in Ukraine requires an overview of the USG program over the past five years. The touchstones of USAID/Ukraine’s program as they overlap with the four core elements of the labor sector framework are summarized below.<sup>72</sup> The mission is particularly focused on activities in eastern and southern Ukraine, regions that have traditionally been more closely oriented toward Russia until now, the goal being to “help accelerate the region’s acceptance and use of European standards and international best practices in governance, business development, and social reforms—which had generally lagged behind the West” (USAID Mission to Ukraine 2008c).

**FIGURE 9: LABOR ENABLING ENVIRONMENT & USAID/UKRAINE PROGRAM PRIORITIES**



<sup>72</sup> Drawn from mission fact sheets posted at <http://ukraine.usaid.gov>, and listed in Annex B under USAID, Mission to Ukraine (2008 various).

### 5.1.1 Current USG Mission Strategy

In 2007 a strategic planning framework known as the Framework for US Foreign Assistance (or FAF) was introduced to organize foreign assistance programming according to countries’ strategic classifications. Under the FAF, foreign assistance resources delivered by the US State Department and USAID are organized into five strategic objective areas—peace and security, governing justly and democratically, investing in people, economic growth, and humanitarian assistance.<sup>73</sup> Many individual country missions, however, continue to use earlier country strategy documents to guide their programs. In the case of USAID/Ukraine, the program priorities outlined in its 2003-2007 country strategy document remain valid.

Under that strategy, five strategic objectives (SOs) and two special objectives (SpOs) underpin the program, designed to deliver an anticipated range of intermediate results (IRs), summarized below.

**Table 7: USAID/Ukraine Program Summary**

FAF Objective Areas	Country Strategy Document Strategic/Special Objectives	Country Strategy Document Intermediate Results
Economic Growth	SO 1: Improved investment climate	IR1.1: Business legal environment improved IR1.2: Tax and budget management improved IR1.3: Structural economic policies improved IR1.4: Energy sector performance improved IR1.5: Mobilization of financial resources increased
	SO2: Accelerated growth of SMEs and agriculture	IR2.1: Legal and regulatory environment strengthened IR2.2: Enhanced management of SMEs and agriculture IR2.3: Increased access to land and credit IR2.4: Organized markets stimulate growth
	SpO: Increased environmental protection	<i>None</i>
Governing Justly & Democratically	SO3: Citizenry increasingly engaged in promoting their interests and rights for a more democratic, market-oriented Ukraine	IR3.1: Availability of quality information increased IR3.2: Effectiveness of civil society organizations increased IR3.3: Political parties better represent citizens’ concerns IR3.4: A more credible and competitive electoral process
	SO4: Government institutions are more effective, transparent, and accountable to the citizens	IR4.1: Increasingly autonomous and responsive local self-governance IR4.2: More effective, independent and representative legislature IR4.3: Adherence to the rule of law
Investing in People	SO5: Improved social conditions and health status	IR5.1: Improved health promotion and efficiency of quality health care IR5.2: Improved social protection system IR5.3: Groups most vulnerable to exploitation, violence, discrimination and neglect protected
	SpO: Program support initiatives	<i>None</i>

Source: USAID (2002)

### 5.1.2 Current USG Program and Other Relevant Initiatives

The USG program budget in Ukraine has fluctuated between \$82 and \$100 million over the last four years, trending somewhat downward. Approximately 40% of the USG program in Ukraine is spent on

<sup>73</sup> See [www.state.gov/f](http://www.state.gov/f) and Salinger and Wheeler 2009 for more detail.

peace and security activities,<sup>74</sup> 25% on governing justly and democratically programs, and 20% for economic growth. Most of the remaining budget is allocated to health programs (see Figure 10 and TABLE 8).

In addition, in 2006 the USG's MCC funded a \$45 million, two-year threshold program in Ukraine, focused largely on reducing "corruption through civil society monitoring and advocacy, judicial reform, increased government monitoring and enforcement of ethical and administrative standards, streamlining and enforcing regulations, and higher education testing" (MCC 2008a).

Global Development Alliances are supported by the USAID Mission in Ukraine and aim to create jobs, introduce sustainable finance, upgrade water and communal waste management systems, and engage citizens in decisions affecting the building of their own community through public-private partnerships. The Industrial Union of Donbass Corporation and the City Council of Alchevsk, Ukraine, was awarded USAID's 2008 Global Development Alliance of the Year award for its efforts to promote community and economic development through the Partnership for the Future of Alchevsk. Further such public-private partnerships could provide a useful mechanism for addressing labor sector issues through local economic development initiatives.

USAID/Ukraine has a comprehensive set of DG program activities addressing the goals of contributing to developing a nation ruled by law, where human rights are respected and freedom of speech and press ensured, in which government policy and activity reflects the needs and wishes of an informed citizenry, and to whom representatives are responsive and officials are accountable. New programming in the area of Civil Society and Media, implemented by Pact and Internews, focuses on increasing the organizational capacity of Ukrainian-led, pro-reform NGOs. Two media-oriented trade unions—the Ukrainian National Independent Media Trade Union and the Kyiv Independent Media Trade Union—have already been identified as partners for receipt of technical assistance and grants due to the important role that they played in the 2004 Orange Revolution.

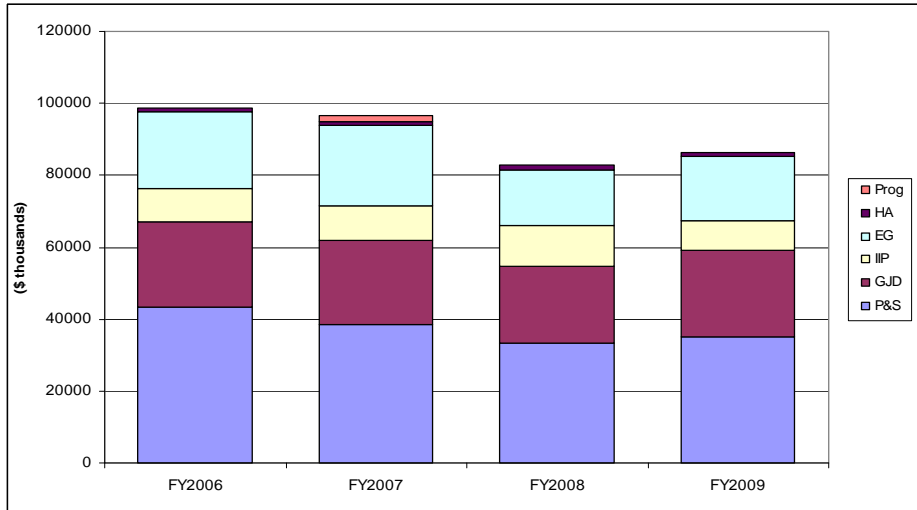
USAID has completed a series of labor-related programs in Ukraine, phasing out its direct assistance in this area in 2000-2005. Labor remains a cross-cutting element in the mission's portfolio, and in particular in EG programs. For instance, the mission's Local Economic Development program has helped 76 cities around Ukraine develop and market their assets to new investors, helping to create 50,000 jobs in the process. In addition, plans are in place to support workforce development activities in Sevastopol, ARC.

Priorities of the USAID office of economic growth include economic recovery, energy, and Crimea. However, in areas such as SME development/workforce development, and pension reform, these are areas in which USAID has planned future work. For example, the Local Investment and National Competitiveness (LINC) project will work on workforce development initiatives in economic regions and cities that spell out the need for workforce training, and also have the political will, to initiate local and regional reforms targeted at aligning labor supply with demand. The implementation of the Financial Sector Rehabilitation Project (FINREP) will include pension reform.

---

<sup>74</sup> Peace and security programs include armed forces modernization, law enforcement, weapons proliferation, nuclear safety, export control and border security, and combating transnational crimes, including trafficking in persons.

**FIGURE 10: USG UKRAINE PROGRAM BUDGET**



Source: USAID budget documents (various years), <http://www.usaid.gov/policy/budget/>



**Table 8: USG Ukraine Program Budget, Details**

<b>Appropriation by Year - Ukraine</b>					
<b>by Operating Unit, Program Objective and Program Area</b>					
<b>Ukraine</b>					
	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
	<b>Actual Total</b>	<b>Actual Total</b>	<b>Total</b>	<b>Total</b>	<b>Request Base</b>
<b>TOTAL</b>	100,079	96,514	119,310	89,419	118,953
<b>Ukraine</b>	100,079	96,514	119,310	89,419	118,953
<b>1 Peace and Security</b>	43,390	38,612	35,452	35,293	44,504
1.2 Combating Weapons of Mass Destruction (WMD)	26,670	22,810	21,635	20,750	20,600
1.3 Stabilization Operations and Security Sector Reform	15,635	14,565	12,184	12,920	22,770
1.5 Transnational Crime	1,085	1,237	1,633	1,623	1,134
<b>2 Governing Justly and Democratically</b>	23,633	23,161	24,773	25,427	31,683
2.1 Rule of Law and Human Rights	1,596	5,832	4,058	5,822	6,508
2.2 Good Governance	8,536	7,266	5,974	7,374	12,835
2.3 Political Competition and Consensus-Building	3,083	1,953	1,299	1,941	1,819
2.4 Civil Society	10,418	8,110	13,442	10,290	10,521
<b>3 Investing in People</b>	9,450	9,877	13,983	10,857	15,549
3.1 Health	9,292	9,319	13,833	10,857	15,549
3.2 Education	158	558	150	-	-
<b>4 Economic Growth</b>	22,616	22,212	42,474	16,642	26,017
4.1 Macroeconomic Foundation for Growth	1,064	575	500	-	500
4.2 Trade and Investment	1,680	3,348	4,602	1,498	3,904
4.3 Financial Sector	7,461	8,149	13,702	4,531	3,394
4.4 Infrastructure	6,000	9,000	12,489	5,329	8,087
4.5 Agriculture	2,989	250	1,466	1,832	2,750
4.6 Private Sector Competitiveness	1,937	890	9,715	3,452	5,695
4.7 Economic Opportunity	-	-	-	-	1,687
4.8 Environment	1,485	-	-	-	-
<b>5 Humanitarian Assistance</b>	990	1,200	1,200	1,200	1,200
5.1 Protection, Assistance and Solutions	990	1,200	1,200	1,200	1,200
<b>6 Program Support</b>	-	1,452	1,428	-	-
6.1 Program Design and Learning	-	1,452	170	-	-
6.2 Administration and Oversight	-	-	1,258	-	-

Source: USAID budget documents (various years), <http://www.usaid.gov/policy/budget/>

Regular donor coordination takes place through appropriate sector-focused meetings in areas such as parliamentary development, anti-corruption, civil society, and media. The US-funded National Endowment for Democracy based in Washington currently funds the American Center for International Labor Solidarity program in the Ukraine, with an annual budget of approximately \$500,000 and expects to continue support in 2009. The Swedish International Development Agency (SIDA) has supported a number of grant projects related to regional trade agreements, combating trafficking in human beings, and migration. A notable SIDA program supporting labor sector activities has been the “Labor Market Dialogue” Social Partnership Ukraine implemented by Swedish Trade Unions TCO and LCO since 2004. It has brought together representatives from the government, worker’s organizations and employers’ organizations in workshops on labor conflict resolution, branch agreements, capacity building, and organizational development. The workshops, all led by Swedish experts on the worker’s as well as the employer’s side, has left favorable impressions with many Ukrainian organizations who have participated and could provide a model for further development and expansion. Canadian, German, and Austrian bilateral programs also support vocational education. In April 2009 the EU and ILO launched a €1.2 million, effort to address gender discrimination in the workplace, involving tripartite representatives.<sup>75</sup>

The Global Compact Initiative was launched in 2006 to address corporate social responsibility issues in the Ukraine. It has 120 members and working groups on human rights, labor, environment, and finance/CSR. All members have signed the Global Compact to promote principles of ethical behavior, human rights, good labor relations, environmental protection, and anticorruption through integrating these principles into their core business. The United Nations resident representative’s office acts as secretariat. The labor working group of the Global Compact Initiative was the least active of all of the working groups. Employers unions, labor unions, and company representatives signed up to join, but they apparently met once and never met again, due in part to tensions between the participants. Nevertheless employer/employee relations and employee protection in turbulent times will be an important topic in 2009, and activities have already been planned based on feedback from the members.

Corporate social responsibility is a growing area of activity in Ukraine. Organizations such as the East Europe Foundation are involved in a number of highly visible activities supported by private foundations established by wealthy Ukrainian businessmen. While some observers express cautious optimism on the potential role of wealthy industrialists, there is a persistent concern about the unchecked economic and political influence of industrial financial groups—so-called “oligarchs” in Ukraine today.

## **5.2 SUMMARY: STRATEGIC CONSIDERATIONS**

This report outlines the principal development challenges facing Ukraine today (Section 2). Given that context, a detailed analysis of legal, political, institutional, organizational, and economic dimensions of Ukraine’s labor sector highlights strengths and weaknesses of its varied surfaces (Section 3). How these various issues interplay with the core program areas of the USG foreign assistance framework is explored, while synergies between and among core areas are identified (Section 4). Given the present outline of the USG program in Ukraine (Section 5.1), several strategic considerations for integrating a labor perspective therein are offered here.

### **5.2.1 Integrating Labor Sector Actors Directly into Rule of Law, Political Competition, and Civil Society Programs**

More focus on a range of labor sector issues and programming can significantly contribute to achieving USAID’s DG objectives in Ukraine. Many labor-related policies, whether they are concerned with

---

<sup>75</sup> See <http://www.un.org.ua/en/news/2009-04-24-2/>.

crafting a new labor law, improving the skill match between workers and employers, ensuring a climate where the freedoms necessary for workers to organize exist, or increasing protections for workers, are closely related to broader goals of democracy and governance. In particular, labor sector programming can improve the rule of law and human rights through the passage of a new labor law, provided it is supported by improved monitoring and enforcement mechanisms. Good governance will be furthered by better enforcement of existing labor codes and through deliberative bodies that are more responsive to labor constituencies. Political competition is an area that could be significantly enhanced by improved labor union lobbying of political parties. Programming in the labor sector also offers immediate and direct benefits to the development of a more vibrant and engaged civil society.

One of the principal goals of democracy assistance is to increase the ways in which ordinary people participate in politics, and increase the impact of that participation. By placing a stronger emphasis on labor sector policies through democracy and participation, policymakers will be encouraged to engage in more open public dialogue on labor issues. By incorporating concrete wage, occupational safety, and other issues into democracy and governance, labor sector programming, if done well, will demonstrate to ordinary people that democracy is not just a platitude but that it can have an effect on their lives.

A key element of successful democracy and governance work is linking capacity-building projects, whether with CSOs, legislatures, or political parties, to issues of real import to voters, activists, MPs, or parties. Labor sector issues can be an important component of this. For example, a legislative strengthening project could organize a series of fora and workshops to discuss proposed drafts of a new labor law. These could include workshops with MPs and labor law experts, union leaders, representatives of employers, and the like, as well as public events where ordinary citizens, and workers, could have some input on the new law.

Similarly, there are CSOs which currently focus on various aspects of labor including trafficking, migrant workers, and young workers. However, there are large areas of the labor sector which do not seem to be addressed by major civil society organizations. Examples of this include organizations that advocate for and seek to represent unorganized workers in the informal sector or older workers who may be past the mandatory retirement age but still be in the workforce, as well as organizations, other than unions, that seek to advocate for workplace safety, living wages, and other labor-related issues.

Efforts to support CSOs addressing these issues would contribute to a depth and vibrancy to Ukrainian civil society that would bolster democracy and governance programs. If CSOs were seen as advocating for critical workplace issues, about which ordinary Ukrainians care a great deal, it would help Ukrainians get a stronger sense of why democracy is important and how it can be effective and help improve the perception of civil society in Ukraine.

What is it about the trade union movement that positions it to fulfill the strategic democratizing functions of CSOs so effectively?<sup>76</sup> Firstly, the sheer size of a domestic trade union movement as compared to other domestic CSOs creates the potential for far-reaching impact on both the elites and the grassroots. In Ukraine, there is no CSO whose dimension even closely compares to the membership size of the union movement. Secondly, in most independent trade unions, internal democracy is strong, with the leadership elected by, and answerable to, the members. This contrasts with the majority of CSOs. The range of issues addressed by a combination of CSOs and the trade union movement is potentially extremely broad, extending beyond the interests of its members and the narrow confines of the workplace. In many developed countries, the trade union movements traditionally lobby for legislation, such as minimum wages and safety regulations, that benefits not only its membership but all workers. The issues addressed by trade unions in many countries have extended beyond the workplace to include civil rights, affordable housing, educational improvement, and civil liberties. As previously noted, however, one of the

---

<sup>76</sup> For further discussion, see Fick (2009).

weaknesses of the Ukrainian trade union movement is its limited perspective on the range of issues it addresses.

Currently, the trade union movement possesses too narrow a view of its role. Negotiating on behalf of members in the workplace is obviously one aspect of a union's role, but not the sole function. Beyond the representational role are the communicative, political, stewardship, protest, collaborative, and economic functions.

The following recommended initiatives can help address the gaps that currently exist in regards to both political competition and civil society.

- Programs designed to help trade unions recognize the importance of and improve their channels of communications would enhance both their representational and protest functions. This could help introduce both greater internal democratic proceedings to unions and enhance competition between unions, helping to open up to more input from the base.
- Given the problem of lack of skilled workers in the Ukrainian labor market, a program aimed at helping the unions broaden their training programs to include job training would both increase union capacity as well as serve the needs of the labor market. Indeed, there is a nascent program currently being run by the trade union in Lviv aimed at job training.
- Programs aimed at building this communicative capacity to work with the media, particularly at the local and regional union level, would increase the visibility and viability of the trade union movement as well as enhance the prospect for improved bottom-up communication/consultation between grassroots and national leadership.
- As to the political, collaborative, and economic functions, there was little evidence that either confederation is particularly effective at the national, regional, or local level. The reluctance of the unions to be actively involved in political advocacy and lobbying needs to be addressed. A program designed to provide these skills as well as to distinguish between union political activity and unions being used by politicians would go a long way toward increasing the movement's capacity to assist in creating an environment for sustainable democracy.
- Programs designed to educate the unions about the interconnectedness of social, environmental, and economic issues and bring them into contact with other CSOs can be a good jumpstart to participating in collaborative work that both helps CSOs and unions in becoming more effectively involved in the political process. For example, one-day roundtables organized around a common theme (such as women's rights in the workplace) could be used to bring together unions, women's rights groups, and skills training organizations and allow them to appreciate the interconnectedness of their work.
- To better engage in the political process, unions need to develop the technical capacity to tackle broader macroeconomic issues than just immediate workplace concerns. This would require capacity-building to acquire the needed expertise to tackle these issues in an intelligent manner.

If one were to prioritize these various tasks, the number one priority would be education and capacity-building to better perform the political function. Without the ability to effectively engage in political advocacy and lobbying, the trade unions will be unable to realize their potential for maintaining a stable democratic order, fulfilling their mediative role in society, and providing voice for "the subordinate class" both in labor-related matters as well as on broader social and economic issues,

As a general proposition, in designing programs dealing with the trade unions more attention needs to be paid to enhancing the capacity of primary (local) and regional trade unions who are the conduit between the members and the national and confederated trade union organizations. These local and regional organizations appear to have the potential and desire to expand their ability to serve their members and

are capable of reacting a bit more quickly than the more bureaucratic national and confederated organizations.

## **5.2.2 Strengthening Labor and Workforce Development Initiatives in Local Economic Development Programs**

Local economic competitiveness involves multiple variables. Among these are several labor sector issues. A competitive export sector, for instance, needs collaborative, rather than confrontational, labor relations in order to keep the production lines moving. Verifiable and transparent information confirming compliance with core labor standards gives assurances to international buyers that their sourcing partners will not appear in condemning news reports about working conditions; and workers whose labor rights are respected, whose working conditions are decent, and who receive wage incentives commensurate with productivity will work harder than those who work under adverse conditions.

Another labor sector dimension to competitiveness revolves around skills and training. Skills upgrading and preparing the future workforce for tomorrow's jobs are key to advancing Ukraine's economy, coupled with creating jobs, of course. Stories of labor market disequilibria abound in Ukraine: youth who decline to pursue vocational training, students who flood into law and economics rather than pursue science and technology careers, employers who are unable to recruit appropriately trained workers, and the like. Some of these seeming disequilibria are due to the fact that Ukraine is embedded within a regional labor market that, at least until the fourth quarter of 2008, drew labor out of Ukraine into higher paying labor markets in nearby countries.

USAID could strengthen integration of labor sector issues into its competitiveness and local economic development programs, encouraging local level dialogue between local business associations and labor unions to encourage both increased productivity/competitiveness and respect for labor rights. Economic and financial literacy of unions, associations, and their members benefits society broadly – credit, home purchases, profitability of enterprises, etc. In addition, industry-specific employer groups should be supported to signal to education and training institutions, and the youth, students, and mid-career adults who attend them, what skills they seek and what levels of compensation they are willing to pay in order to successfully recruit the workforce they need.

Examples of workforce development initiatives that may be successful include:

- Preparation of occupational reference materials, such as competency frameworks that indicate tasks, responsibilities, and skills required at various levels of employment in a firm;
- Collaboration with faculty on degree program and curriculum designs that will produce skilled, recruitable graduates;
- Organization of informational tours, internships, summer employment programs, and career fairs to give youth, students, and mid-career job seekers insights into possible career paths;
- Improve the dissemination of information about the job market. This could involve programs that could use such entry points as the Public Employment Service and media, Internet, and Web 2.0 outlets; and
- Increase education and training opportunities for vulnerable groups at risk of labor migration and labor trafficking.

Programs that integrate more explicit consideration of labor and workforce development issues as part of local economic development can help to ensure that all conditions for growth are being met. In addition, integration of labor and workforce development issues could mitigate increases in trafficking-in-persons, in particular in light of the global economic crisis.

### 5.2.3 Supporting Pension Reform Strengthens Labor Markets and Growth

While economic activity in all countries takes place in both formal and informal sectors, nations have an interest in encouraging formalization of economic activity in order to extend the application of rule of law and to expand the asset base from which the state can assess taxes. Workers remain outside the formal economy for a number of reasons: limited availability of formal sector jobs, high cost of access to formal sector jobs (for example, may require migration to the city or may require payment of fees to job agents), or a preference for the time management flexibility that the informal sector affords. In Ukraine, some employers and employees are engaged in arrangements that span the distinction between formal and informal employment, through participation in some degree of envelope wage compensation that evades payment of payroll taxes.

Support for pension reform in Ukraine thus is important not only to strengthen financial stability, but in order to give workers an incentive to seek formal sector employment. The incentive is created when workers believe that their payroll deductions will accrue in pension accounts that will help to support them in the event of unforeseen risks or after they retire from the workforce. This, in turn, augments the income tax base for the country, which in the long run improves the ability of the state to expand its portfolio of programs.

As described earlier, the demographic challenges facing Ukraine are the worst in the region. Without a solution to its rapidly escalating pension costs and aging population, Ukraine's elderly will suffer economic and social hardships. The contemplated changes to Ukraine's pension reform are designed to make the pension system fiscally sound and sustainable into the distant future.

A much improved pension system will allow Ukraine's elderly to retire with dignity, improve their standard of living, and safeguard the social safety net for current and future workers. Support for pension reform in Ukraine thus may also be important in order to help workers manage risks and save for retirement, thereby freeing them somewhat during their working years to invest in other assets, such as housing or education or entrepreneurship that they might not otherwise be able to afford.

## 5.3 FINAL CONSIDERATIONS

Given finite resources and the scope of issues to be tackled, care should be taken to avoid duplication of efforts. Ukraine is currently working toward inclusion in the EU Neighborhood Policy as well as being engaged in negotiations to establish a free trade area with the EU. The EU, therefore, is working closely with Ukraine to help it meet the standards necessary to accomplish these goals. To that end the EU is already providing program support in some of the problem areas identified in this assessment, such as a program to support gender equality, a program designed to provide training for civil servants, capacity-building programs aimed at strengthening CSOs, and in the pipeline the possibility of a twinning program for the Ministry of Labor and Social Policy to provide guidance and expertise. The European Commission provided €120 million in financial assistance to Ukraine in 2008 to support reform programs aimed at achieving key policy objectives outlined in the EU-Ukraine Action Plan. Some of the priorities outlined in this Plan mirror areas targeted in this assessment, such as strengthening the stability and effectiveness of institutions guaranteeing democracy, improving the climate for doing business, reinforcing administrative and judicial capacity, and encouraging dialogue on employment issues. In determining specific programs to support, it would therefore be advantageous to be cognizant of the work already being done, or planned, by the EU.

USG support for labor programs to date has laid an important groundwork for achieving a well-functioning labor sector in Ukraine. Conditions in Ukraine today are particularly propitious to make further progress and reap the benefits of that groundwork now. With regard to external considerations, Ukraine's interest in negotiating free trade and association agreements with the EU should heighten the

country's sensitivity to labor issues, since the EU's commitment to human rights, including core labor standards, is a focus of such negotiations (EU 2001). Within Ukraine, government repression of, and interference with, trade unions has lessened under the Yushchenko administration, compared with the previous administration. The KVPU, with increased membership and institutional stability, is now a more significant social partner. Finally, in the current evolving political landscape, there is an opportunity to reform the FPU from its organization as a Soviet-legacy trade union to a union that is less dependent on government political control and more responsive to its membership.





# APPENDIX A: RESULTS FRAMEWORK

## ELABORATION OF A RESULTS FRAMEWORK FOR A UKRAINE LABOR SECTOR PROGRAM: SPECIAL OBJECTIVE FOR WORKER'S ORGANIZATIONS

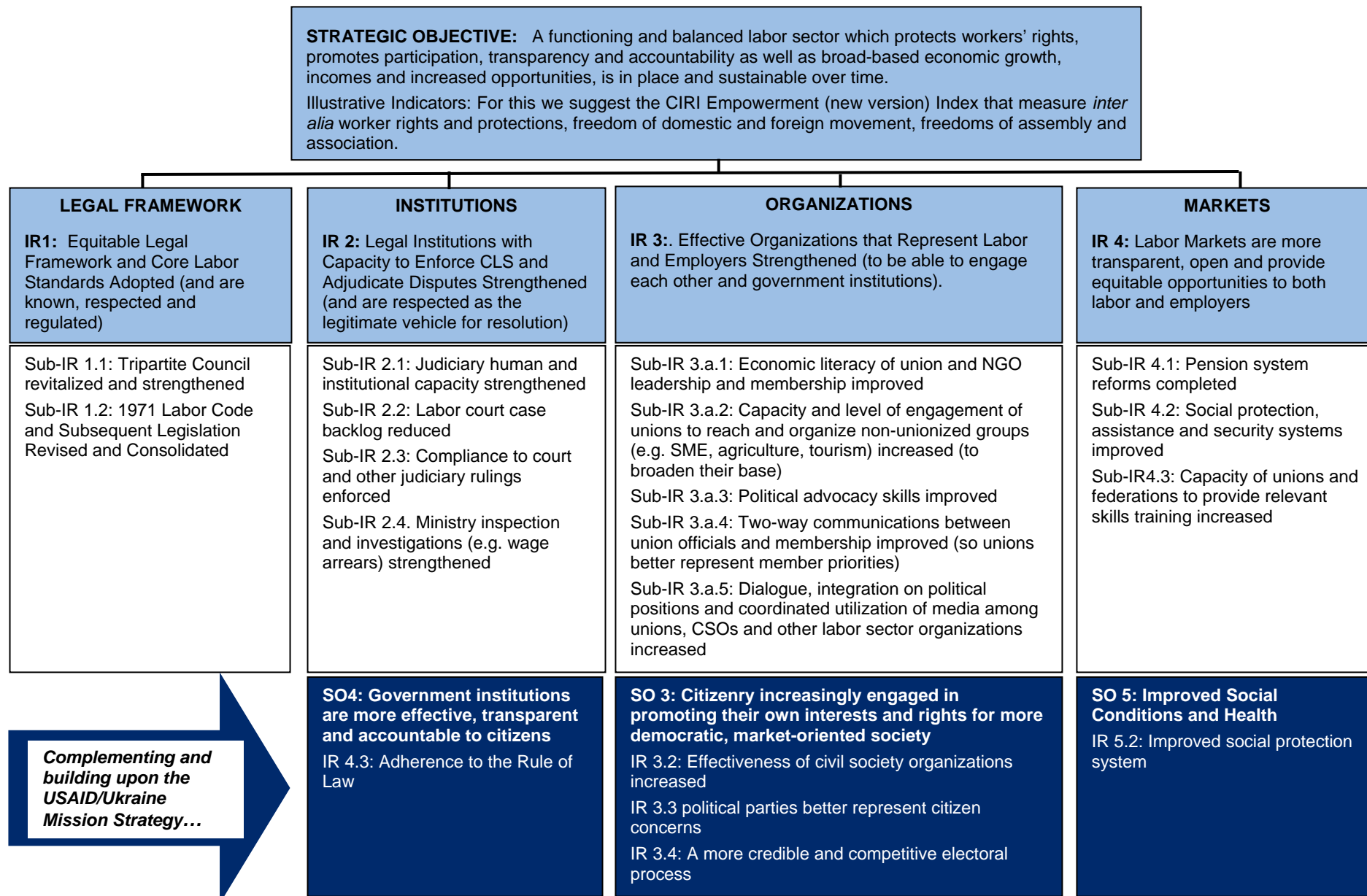
The process of developing a Ukraine-specific Labor Results Framework followed a step-wise approach starting with an analysis of the country labor sector assessment for Ukraine. Using the Labor Sector Strategic Objective and Intermediate Results developed in the Program Handbook (in light blue), customized Sub-Intermediate Results were developed based on the identified constraints, overall conclusions and recommendations of the labor sector assessment. This is provided as **Figure 1**. It also indicates where this broad cross sectoral Ukraine Labor Sector Results Framework complements the existing Mission strategy (in dark blue).

From that Results Framework combining global objectives (SO and IR) with localized context, analysis of the labor sector assessment indicated a Results Framework that would be based on a specific Special Objective (Mission level), Special Intermediate Results and Sub-Intermediate Results that focuses on Labor Sector Organizations (in red). The transition from a cross-sectoral Labor Sector RF for Ukraine to one concentrating on Labor Sector Organizations (hence a Special Objective) is provided in **Figure 2**, citing specific issues arising from the labor sector assessment.

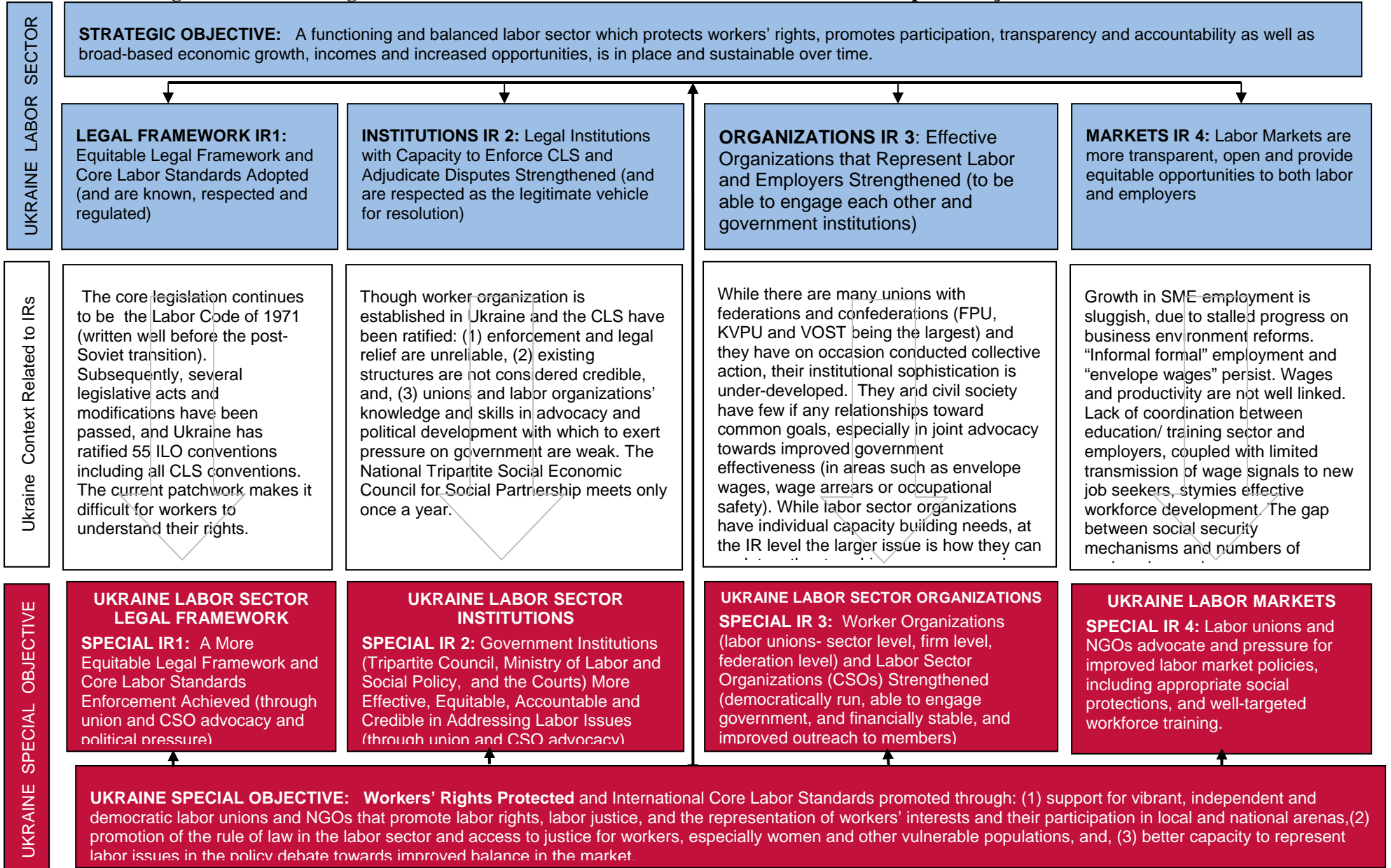
**Figure 3** provides a Results Framework for a Worker Organization focused program in Ukraine under the Special Objective, with customized IRs and sub-IRs. Included in this figure are illustrative custom performance indicators relevant to both the Ukraine and global RF. FACTS indicators, not included, would be based on the FAF Assistance Objective elements and/or the Missions SO Results Framework.

*Note: Labor Sector Organizations refer to the wider organizational matrix of unions, human rights and labor policy CSOs, and employer associations (and in some cases may include political entities). Worker Organizations refer to democratic membership union organizations and their federations.*

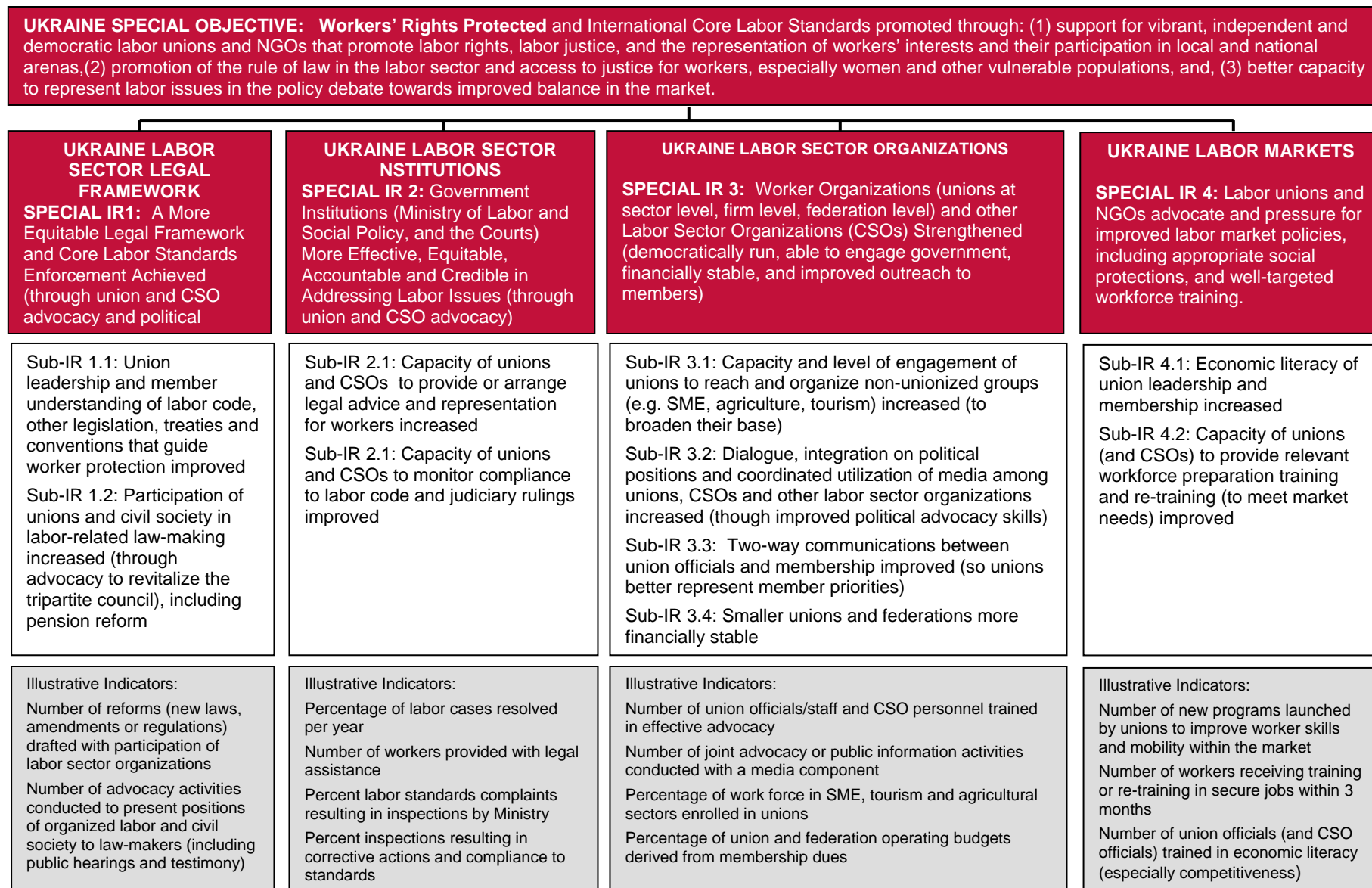
**Figure 1. Overall Results Framework for the Ukraine Labor Sector**



**Figure 2. Transitioning From The Ukraine Labor Sector Results Framework To The Special Objective Results Framework**



**Figure 3. Proposed Results Framework For A Ukraine Labor Program**



# APPENDIX B: CONTACTS

## LABOR ORGANIZATIONS

### *Confederation of Free Trade Unions (KVPU)*

Mykhailo Volynets, Chairman

Viktor Petrovych Dytkovskiy, Deputy Chairman and Chair, Metro Workers local union, Kyiv

Vladimir Kovelskiy, Railway Union, Kyiv

Nadia Leleka, Deputy Chairman

Natalya Levytska

Vera Sheludko

### *KVPU/Donetsk*

Anatoliy Akimochkin, Independent Miners Union, Donetsk

Vladimir Kortokov, miner & Independent Miners Union, Donetsk, Deputy Chair

Miners, “Chaikyno” coal mine

### *KVPU/Lviv*

Andrey Sokolov, Deputy chair, KVPU & Chair, Teachers’ union

Dmitri Redko, Chair, Medical workers’ union

Igor Shlapak, Chair, Teachers’ union

Wolodja Sosnizki

Marep Tapac

Makar Taras, Retired railroad cargo worker, & Deputy Chair, regional KVPU

Ilyk Vitaly, Lamp factory worker, Chair, regional KVPU, Head of youth committee

### *Union of Private Bus & Taxi Drivers of Ukraine*

Vasil Leanovich, President

Dimitri Popyck, Vice President

### *Independent Media Trade Union*

Roman Skrypin, Ukrainian National Independent Media Trade Union

Andriy Schekun, Independent Media Trade Union, Simferopol, Head

### *Federation of Trade Unions of Ukraine (FPU)*

Sergiy Kondriuk, Head, Protection of Economic Interests of TU Members Department

Grygoriy Osoviy, Deputy Chairman

Vasyl Shylov, Head, International Department

Nadezhda Vasiliivna Kazmina, Crimean branch

### *Labor lawyer*

Anna Nechai

## BUSINESS ORGANIZATIONS

### *Confederation of Employers of Ukraine*

Rodion A. Kolyshko, Advisor

Oleksiy V. Miroshnychenko, Executive Vice-President

***Lviv Chamber of Commerce and Industry***

Dmytro Aftanas, President  
Yurij Pukalskyj, First Vice President

***Lviv Regional Association of Small and Medium-sized Businesses***

Grygoriy Vasyltsiv

***European Business Association***

Mariya Mulyava, Western Ukrainian Branch, Regional Manager

***Independent Human Resource Managers & Consultants***

Victoria Pridatko, HR consultant, Team Staff Recruiting Agency  
Natalya Vinnikova, HR manager, Polly

**GOVERNMENT OF UKRAINE**

***Ministry of Labor and Social Policy***

Vasyl Martyniak, Director, Chief Department of Labour and Social Protection, Lviv  
Tetyana Petrova, Head, Department of Employment Policy and Labour Migration  
Nataliya Zinkevich, State Employment Center, Public Employment Service, 1<sup>st</sup> Deputy Director

Lyudmila Mushinska, Kyiv City Employment Center  
Tamara (Nikolaevna) Kozenko, Donetsk Oblast Employment Center  
Nikolay Petrovich Isayko, Crimean Republican Employment Center

***Ministry of Economy***

Oleksandr Savenko, Head, Department of Social Development  
Nadiya Dmytrenko, Deputy Head of Department

***Invest Ukraine*** (Ukrainian Center for Foreign Investment Promotion)

Denys Kryschenko, Head, Investor Services Department  
Sergiy Petrov, Regional Cooperation Manager  
Yuriy Shramko, Investment Associate

**UKRAINIAN POLITICAL REPRESENTATIVES**

Crimean Republican Committee of Communist Party, Leonid Ivanovych Grach, Head  
Sergei Sobolev, BYuT, Member of the *Rada*

**CIVIL SOCIETY ORGANIZATIONS AND THINK TANKS**

Center for Political and Legal Reforms, Igor Koliushko, Head of the Board  
Committee of Voters of Ukraine, Donetsk, Sergiy Tkachenko  
Donetsk Regional League of Business and Professional Women, Ludmila Gorova, President  
Institute for Competitive Society, Dmytro Lyapin  
Institute of Economic Research and Policy Consulting, Igor V. Burakovsky, Director  
Institute of Economic Research and Policy Consulting, Veronika Movchan, Academic Director  
International Center for Policy Studies (ICPS), Ildar Gazizullin, Economist  
International Renaissance Foundation, Yevhen Bystrytsky, Executive Director  
National Academy of Sciences, Institute of Demography and Social Studies, Ella Libanova  
National Academy of Sciences, Institute of Economy and Forecasting, Valeriya Bliznyuk  
National Academy of Sciences, Institute of Economy of Industry, Olga Novikova and Valentina Antonyuk

Razumkov's Center, Andrey Bychenko, Director, Sociologic Service  
Ukrainian Center for Independent Political Research (UCIPR), Maksym Latsyba, Head of Programs  
Western Ukrainian Center on Women's Perspectives, Lubov Maksymovych, Director  
Western Ukrainian Center on Women's Perspectives, Halyna Fedkovych, Senior Lawyer  
Western Ukrainian Center on Women's Perspectives, Marta Chumalo, Vice-Director  
Youth Debate Center, Donetsk, Andriy Donets

## **U.S. GOVERNMENT AND USG-SUPPORTED ORGANIZATIONS**

### ***U.S. Government Mission, Ukraine***

Natalia Berezhna, USAID, Office of Economic Growth  
Janina Jaruzelski, USAID, Mission Director  
Victoria A. Marchenko, Program Manager, Civil Society and Media  
David Mellor, U.S. Embassy, Political Officer  
Terence A. Miller, USAID, Office of Economic Growth  
Laura Pavlovic, USAID, Democracy & Governance Officer  
Stella Roudenko, USAID, Program Development Specialist  
Robert Scott, U.S. Embassy, Deputy Political Officer  
Peter A. Wiebler, USAID, Office of Democracy and Governance, Director  
Sarah Wines, USAID, Deputy Mission Director  
Christian Yarnell, U.S. Embassy, Political Officer & Labor Reporting Officer  
American Bar Association Rule of Law Initiative (ABA-CEELI), Petro Pavlychenko, Deputy Country Director Ukraine  
Eurasia Foundation, Kyiv Regional Office, Timothy Pylate, Director of Development  
Financial Markets International, Inc., Gary Hendricks, Pension Reform specialist  
Indiana University, Parliamentary Development Project, Eleonor Valentine, Field Director  
International Center for Not-for-Profit Law (ICNL), Natalia Bourjaily, Vice President - NIS  
International Research and Exchanges Board (IREX), Joseph Bednarek, Director/Education Programs Manager  
National Democratic Institute (NDI), Marta Kolomayets  
National Democratic Institute (NDI), Scott Persons  
National Endowment for Democracy (NED), Nadia Diuk  
Pact Ukraine, Balazs Jarabik, Regional Representative for Ukraine, Belarus, Moldova  
Solidarity Center, Alexander Feltham, Program Officer  
Solidarity Center, Robert Pajkovski, Ukrainian Representative

## **INTERNATIONAL ORGANIZATIONS**

European Union, Delegation to Ukraine, Martin Schieder, Head of Operations, Section I  
European Union, Delegation to Ukraine, Giovanni Capellino, Head of Contracts and Finance Section  
International Labor Organization, Vasyl Kostyrytsya, Country Representative  
International Monetary Fund, Laurent Moulin, European Department  
International Monetary Fund, Paul Wood, Advisor to the U.S. Executive Director  
International Organization for Migration, George Gigauri and Iryna Saychenko  
Labor Market Dialogue Ukraine, Irina Bontch-Osmolovskaia Norström, Project Manager  
United Nations, Yulia Shcherbinina, Public-Private partnership officer  
United Nations Development Program, Petr Bushuev, Crimea Integration and Development Program  
World Bank, Ukraine Mission, Olena Beh, Human Development Section  
World Bank, Ukraine Mission, Yulia Smolyar, Human Development Section  
Yalta European Strategy, Inna Pidluska, Executive Director (also head of Board, NGO Europe XXI)





# APPENDIX C: REFERENCES

## ILO MATERIALS

- Committee on Freedom of Association, Case No. 23898, Reports No. 337 and 342  
Committee of Experts on the Application of Conventions and Recommendations, Individual Observations
- Concerning C. 87 (2007)(2005)(2003)
  - Concerning C. 95 (2008)(2007)(2006)
  - Concerning C. 98 (2007)
  - Concerning C. 100 (2008)
  - Concerning C. 111 (2008)(2006)
  - Concerning C. 138 (2008)
  - Concerning C. 144 (2008)(2005)
  - Concerning C. 182 (2008)

## LAWS OF UKRAINE

- Constitution
- Labor Code
- On Trade Unions, Their Rights and Guarantees of Activities
- On the Procedure for Settlement of Collective Labour Disputes Respecting Collective Contracts and Agreements
- On Ensuring Equal Rights and Equal Opportunities of Women and Men
- About Organizations of Employers
- On Employment

## NEWS ARTICLES

Various news articles on labor issues from 2000-2008 from Interfax-Ukraine, ITAR-TASS, Ukryina Moloda, BBC Monitoring International Reports, Global News Wire, Interfax News Agency, World Markets Research Center, States News Service, Esmerk Ukraine News.

## PUBLICATIONS AND REPORTS

- Abt Associates. 2006. *WTO Accession and Investment Promotion: Ukraine*. Final Report. Bethesda, MD, December.
- Atleson, James, Lance Compa, Kerry Rittich, Calvin William Sharpe, and Marley S. Weiss. 2008. *International Labor Law: Cases and Materials on Workers' Rights in the Global Economy*. Thomson-West.
- Barr, Nicholas, ed. 2005. *Labor Markets and Social Policy in Central and Eastern Europe: The Accession and Beyond*. Washington, DC: World Bank.

- Beck, Laurence. 2007. "Combating Corruption and Strengthening Rule of Law in Ukraine: Assessment of Judicial Selection and Disciplinary Procedures." Prepared for Millennium Challenge Corporation and USAID. Washington, DC: Chemonics International.
- Beleva, Iskra. 2007. "Independent Evaluation of the ILO's Country Programme to Ukraine: 2000-2006." Geneva, International Labor Office.
- Biryukov, Alexander and Myroslava Kryvonos. 2006. "A Research Guide to Ukrainian Law." Available at <http://www.nyulawglobal.org/Globalex/Ukraine.htm>, March.
- Bolnick, Bruce, Alexander Greenbaum, Peter Miller, and Molly James. 2008. *Ukraine Economic Performance Assessment*. Arlington, VA: Nathan Associates Inc.
- Brown, J. David, John S. Earle, and Volodymyr Vakhitov. 2006. "Wages, layoffs, and privatization: Evidence from Ukraine." *Journal of Comparative Economics*, 34: 272-294.
- Brück, Tilman, Alexander M. Danzer, Alexander Muravyev, and Natalia Weißhaar. 2007. "Determinants of Poverty during Transition: Household Survey Evidence from Ukraine." Discussion Paper 748. Berlin: German Institute for Economic Research.
- Chawla, Mukesh, Gordon Betcherman, and Arup Banerji. 2007. *From Red to Gray: The "Third Transition: of Aging Populations in Eastern Europe and the Former Soviet Union*. Washington, DC: World Bank.
- Chernyshev, Igor. 2005. "Socio-economic security and decent work in Ukraine: A comparative view and statistical findings." Working Paper No. 76, Policy Integration Department, Statistical Development and Analysis Group. Geneva: International Labor Organization, October.
- Christev, Atanas, Olga Kupets, and Hartmut Lehmann. 2005. "Trade Liberalization and Employment Effects in Ukraine." *Comparative Economic Studies* 50: 318-340.
- CIA. 2008. *World Factbook: Ukraine*. Accessed October 2008-January 2009.
- Clark, Jeffrey and Jason Stout. 2005. "Elections, Revolution, and Democracy in Ukraine: Reflections on a Country's Turn to Democracy, Free Elections and the Modern World." Development Associates, October.
- Consortium EPOS Health Consultants, ECORYS, and NICO. No date. "Ukrainian Legal System Overview." Available at <http://www.eu-shc.com.ua/en/ukrlegalso.html>.
- Cornell, Angela B., Linn Ann Hambergren, Jorgé Ponce Turcios, and Lynn Salinger. 2009. "The Role of Labor-Related Issues in the Foreign Assistance Framework: Honduras Labor Assessment." Burlington, VT:, May.
- Correa, Paolo. 2007. *Ukraine Private Sector Development Strategy: Building the Microeconomic Foundation for Private-Sector Led Growth*. Washington, DC: World Bank.
- Cowan, Glenn, Charles Costello, and Taras Kuzio. 2007. *Ukraine Local Government Assessment*. Bethesda, MD: Democracy International, Inc.
- Development Alternatives Inc. 2006. *BIZPRO Final Report*. Bethesda, MD.
- Dooley, Justice John. 2006. "Combating Corruption and Strengthening Rule of Law in Ukraine: Transparency Audit: Judicial System of Ukraine." Washington, DC: Chemonics International.
- ECORYS and CASE. 2007a. "Global Analysis Report for the EU-Ukraine TSIA." Rotterdam, 30 August.

- \_\_\_\_\_. 2007b. "TSIA for the EU-Ukraine: In-depth sector and horizontal issue studies." Rotterdam, 31 October.
- \_\_\_\_\_. 2007c. "Trade Sustainability Impact Assessment for the FTA between the EU and Ukraine within the Enhanced Agreement." Rotterdam, 17 December.
- \_\_\_\_\_. 2007d. "Trade Sustainability Impact Assessment for the FTA between the EU and Ukraine within the Enhanced Agreement: ANNEXES." Rotterdam, 13 December.
- Ernst, Ulrich et al. 2005. *Ukraine: Competing in the Global Economy: Strategies for Success*. Bethesda, MD: Development Alternatives Inc.
- European Business Association. 2007. *Barriers to Investment in Ukraine*. Kyiv.
- European Union. 2001. "Communication from the Commission to the Council and the European Parliament: The European Union's Role in Promoting Human Rights and Democratisation in Third Countries." COM(2001) 252 final. Brussels, 8 May.
- \_\_\_\_\_. 2005. "EU/Ukraine Action Plan."
- \_\_\_\_\_. 2008a. "Joint Evaluation Report: EU-Ukraine Action Plan." March.
- \_\_\_\_\_. 2008b. "Implementation of the European Neighbourhood Policy in 2007." Commission Staff Working Document Accompanying the Communication from the Commission to the Council and the European Parliament, Progress Report Ukraine. April 3.
- \_\_\_\_\_. 2008c. "Ukraine-EU: Bilateral Trade Relations." September 19.
- Fedkovych, H., R. Potsyurko, I. Trokhym, and M. Chumalo. 2006. *Gender and Age Discrimination in the Labour market in Ukraine: Legislative Analysis, Research and Monitoring, Advocacy Experience*. Lviv: Lviv Polytechnic National University.
- Fick, Barbara J. 2009. "Not Just Collective Bargaining: The Role of Trade Unions in Creating and Maintaining a Democratic Society." *Working USA, The Journal of Labor and Society*, 12 (June): 249-264.
- Fulton, L. 2007. *Worker Representation in Europe*. European Trade Union Institute.
- Gianella, Christian and William Tompson. 2007. "Too Little Destruction Too Little Creation: A Schumpeterian Diagnosis of Barriers to Sustained Growth in Ukraine." Economics Department Working Papers No. 574. ECO/WKP(2007)34. Paris: Organization for Economic Cooperation and Development.
- Gelb, Bernard A. 2007. "Russian Natural Gas: Regional Dependence." CRS Report for Congress, RS22562. Washington, DC: Congressional Research Service, January 5.
- Ganguli, Ina and Katherine Terrell. 2006. "Institutions, markets and men's and women's wage inequality: Evidence from Ukraine." *Journal of Comparative Economics*, 34: 200-227.
- Human Rights Watch. 2003. *Women's Work: Discrimination Against Women in the Ukrainian Labor Force*.
- \_\_\_\_\_. 2005. *On the Margins: Rights Violations against Migrants and Asylum Seekers at the New Eastern Border of the European Union*.
- International Centre for Policy Studies. 2006. *Ukraine's policy to control illegal migration*. Kyiv.
- \_\_\_\_\_. 2007. *Free Trade between Ukraine and the EU: An impact assessment*. Kyiv.

- \_\_\_\_\_. 2008. "Eurointegration: What awaits Ukraine's labor market?" *ICPS newsletter*, #12 (404), 7 April.
- International Centre for Trade Union Rights. 2005. *Trade Unions of the World*, 6th ed. Biggleswade, UK: John Harpur Publishing.
- International Confederation of Free Trade Unions. 2007. "ICFTU Annual Survey of Violations of Trade Union Rights". Available at: <http://www.icftu.org/survey2006.asp?language=EN>
- \_\_\_\_\_. 2006. "Ukraine: The Miner's Great Depression." Trade Union World Briefing. January. Available at [www.icftu.org](http://www.icftu.org)
- International Finance Corporation. 2007. *Business Environment in Ukraine*. Washington, DC.
- International Labor Organization. *Natlex*. <http://natlex.ilo.org>
- \_\_\_\_\_. 2005. Evaluation Summaries, *Evaluation: Ukraine – Promoting Fundamental Principles and Rights at Work*.
- \_\_\_\_\_. 2006. *Decent Work Country Programme, Ukraine 2006-2007*.
- International Monetary Fund. 2007a. *Ukraine: Selected Issues*. IMF Country Report 07/47. Washington, DC.
- \_\_\_\_\_. 2007b. *Ukraine: Statistical Appendix*. IMF Country Report 07/48. Washington, DC.
- \_\_\_\_\_. 2008a. *Ukraine: 2008 Article IV Consultation*. IMF Country Report 08/227. July. Washington, DC.
- \_\_\_\_\_. 2008b. *Ukraine: Selected Issues*. IMF Country Report 08/228. July. Washington, DC.
- \_\_\_\_\_. 2008c. "Helping Ukraine Avoid a Hard Landing." *IMF Survey Magazine*, November 10.
- \_\_\_\_\_. 2008d. *Ukraine: Request for Stand-by Arrangement*. IMF Country Report 08/384. December. Washington, DC.
- \_\_\_\_\_. 2009. "IMF Urges Ukraine to Stick With Recovery Policies." *IMF Survey Magazine*, November 4. Available at [www.imf.org](http://www.imf.org).
- International Trade Union Confederation. 2007, 2008. *Annual Survey of violations of trade union rights: Ukraine*.
- Kolben, Kevin and Borany Penh. 2009. "The Role of Labor-Related Issues in the Foreign Assistance Framework: Bangladesh Labor Assessment." Circulation Draft. Burlington, VT: ARD, Inc., June.
- Kryshtalowych, Helen and Ludmila Pavlenko. 2005. "Ukraine." In William L. Keller, Timothy J. Darby, and Carl Bevernage, eds., *International Labor and Employment Laws*, 2<sup>nd</sup> edition. Bureau of National Affairs.
- Kubicek, Paul J. 2004. *Organized Labor in Postcommunist States*, Chapter 7, "Organized Labor in Ukraine." University of Pittsburgh Press.
- Kupets, Olga. 2005. "What is Behind Stagnant Unemployment in Ukraine: The Role of the Informal Sector." IZA DP No. 1738. Bonn, Institute for Labor Studies.
- \_\_\_\_\_. 2006. "Determinants of unemployment duration in Ukraine." *Journal of Comparative Economics*, 34: 228-247.

- \_\_\_\_\_. 2008. "What we know – stylized facts, current trends in labor market indicators/ labor law/ labor politics." Background Paper prepared for Ukraine Labor Assessment. Kyiv.
- \_\_\_\_\_, Nataliya Leshchenko, Elena Osinkina, Svetlana Taran, and Vladislav Komarov. 2009. "Black Sea Labour Market Reviews - Ukraine country report." Turin, Italy: European Training Foundation, January. Available at [www.etf.europa.eu](http://www.etf.europa.eu).
- Lamaute, Denise. 1999. "Pension Reform in Ukraine." Note prepared for USAID.
- Lederach, John Paul. 1998. *Building Peace: Sustainable Reconciliation in Divided Societies*. U.S. Institute of Peace Press.
- \_\_\_\_\_. 2000. "Journey from Resolution to Transformative Peacebuilding." In Cynthia Sampson and J. P. Lederach, eds., *From the Group Up: Mennonite Contributions to International Peacebuilding*, 45-58. Oxford University Press.
- Lehmann, Hartmut and Norberto Pignatti. 2007. "Informal Employment Relationships and Labor Market Segmentation in Transition Economies: Evidence from Ukraine." IZA Discussion Paper No. 3269. Bonn: Institute for Labor Studies.
- \_\_\_\_\_, Norberto Pignatti, and Jonathan Wadsworth. 2006. "The incidence and cost of job loss in the Ukrainian labor market." *Journal of Comparative Economics*, 34: 248-271.
- \_\_\_\_\_ and Katherine Terrell. 2006. "The Ukrainian labor market in transition: Evidence from a new panel set." *Journal of Comparative Economics*, 34: 195-199.
- Lekhan, V. M. and V. M. Rudyi, eds. 2007. *Key Strategies for Further Development of the Health Care Sector in Ukraine*. Joint report, Ministry of Health of Ukraine, Ministry of Economy of Ukraine, World Bank, European Commission, and Swedish International Development Cooperation Agency. Kyiv: Rayevsky Scientific Publishers.
- Mandel, David. 2004. *Labour After Communism*. Black Rose Books.
- Millennium Challenge Corporation. 2008a. "Ukraine: Threshold Quarterly Report." Washington, DC. August.
- \_\_\_\_\_. 2008b. "Ukraine: Compact-Eligible Country Report." Washington, DC: July-September.
- Nowrot, Karsten. 1999. "Legal Consequences of Globalization: The Status of Non-Governmental Organizations under International Law." *Indiana Journal of Global Legal Studies*, 6, 2 (Spring): 579-645.
- Pankow, Wlodzimierz and Evghenii Kopatko. 2001. "Workers and Unions in Postcommunist Ukraine." In Stephen Crowley, ed., *Workers after Workers' States*. Rowman & Littlefield Publishers, Inc.
- Polaski, Sandra. 2010. "Statement of Sandra Polaski, Deputy Undersecretary for International Affairs, U.S. Department of Labor, before the Subcommittee on Terrorism, Nonproliferation and Trade Subcommittee on International Organizations, Human Rights and Oversight Committee on Foreign Affairs, U.S. House of Representatives." Washington, DC, March 10.
- Posner, Michael. 2010. "Statement of Michael Posner, Assistant Secretary, Bureau of Democracy, Human Rights, and Labor, U.S. Department of State, before the Subcommittees on Terrorism, Nonproliferation and Trade and International Organizations, Human Rights and Oversight Committee on Foreign Affairs, U. S. House of Representatives," Washington, DC, March 10.
- Raiser, Martin. 2007. "Are Wages in Ukraine too Low? And What Could Be Done to Increase Them?" World Bank Country Office, Belarus, Moldova, Ukraine, April.

- Reichle, Susan. 2010. "International Worker Rights, U.S. Foreign Policy and the International Economy." Statement for the Record by Acting Assistant Administrator, USAID Bureau for Democracy, Conflict, and Humanitarian Assistance before a joint hearing of the Subcommittee on Terrorism, Nonproliferation and Trade and the Subcommittee on International Organizations, Human Rights and Oversight Committee on Foreign Affairs, U.S. House of Representatives. Washington, DC, March 10.
- Rueschemeyer, Dietrich, Evelyne Huber Stephens, and John D. Stephens. 1992. *Capitalist Development and Democracy*. University of Chicago Press.
- Round, John, Colin C. Williams, and Peter Rodgers. 2008. "Corruption in the post-Soviet Workplace: the Experiences of Recent Graduates in Contemporary Ukraine." *Work, Employment and Society*, 22, 149.
- Rutkowski, Jan. 2007. "From the Shortage of Jobs to the Shortage of Skilled Workers: Markets in the EU New Member States." IZA DP No. 3202. Bonn: Institute for Labor Studies, December.
- \_\_\_\_\_. 2008. "Is there a skills mismatch in Ukraine?" 2<sup>nd</sup> Draft. April 22.
- Salinger, B. Lynn and Jeffrey Saussier. 2009. "Labor Sector Program Handbook – Working Draft." Burlington, VT: ARD, Inc., June.
- \_\_\_\_\_ and Jeffrey Wheeler. 2009. "The Role of the Labor Sector in the Foreign Assistance Framework: Technical Paper – Draft." Circulation draft. Burlington, VT: ARD, Inc., June.
- Sanders, Squire. "Labor and Employment in Ukraine." Available at <http://www.bnabooks.com/ababna/intl/2004/ukraine.pdf>.
- Skocpol, Theda. 1999. "Recent Transformations of Civic Life." In Theda Skocpol & Morris P. Fiorina, eds., *Civic Engagement in American Democracy*, 461-510. Washington, DC: Brookings Institution.
- Solidarity Center. 2009. "Ukraine: Nation on the Brink?" May. Available at [www.solidaritycenter.org](http://www.solidaritycenter.org).
- Spector, Bertram I., Svetlana Winbourne, Jerry O'Brien, and Eric Rudenshiold. 2006. *Corruption Assessment: Ukraine*. Washington, DC: Management Systems International.
- Standing, Guy. 2005. "Another New Dawn? The Ukrainian People's Security Survey 2004." Geneva, ILO. See [www.guystanding.com](http://www.guystanding.com) for additional analyses of previous survey rounds.
- Support for Improvement in Governance and Management. 2006. *Ukraine: Governance Assessment*. OECD and European Union, March.
- Swedish International Development Agency. 2008. "SIDA-Funded Projects In Ukraine, On-Going Projects." March.
- Thomas, Chantal, Med Chottepanda, Paul Lubeck, and Louise D. Williams. 2009. "The Role of Labor-Related Issues in the Foreign Assistance Framework: Nigeria Labor Assessment." Circulation Draft. Burlington, VT: ARD, Inc., June.
- Ukrainian Centre for Economic and Political Studies Named After Olexander Razumkov. Various. *National Security & Defense Journal*. Public opinion survey reports and analysis. See <http://www.uceps.org/journal.php>.
- Ukrainian Center for Independent Political Research, Center for International Private Enterprise and Institute for Competitive Society. 2005. *Survey of Business Associations "The Business Climate in Ukraine: The Current Situation and Expectations."*

Ukrainian Helsinki Human Rights Union. 2007. *Human Rights In Ukraine, Chapter 15: Socio- Economic Rights*.

United Nations. 1999. Economic and Social Council. Implementation of the International Covenant on Economic, Social and Cultural Rights: Fourth Periodic Report Submitted by Ukraine under articles 16 and 17 of the Covenant, August 13.

\_\_\_\_\_. 2001. Economic and Social Council, Concluding Observations of the Committee on Economic, Social and Cultural Rights: Ukraine, September 24.

\_\_\_\_\_. 2006. Economic and Social Council, Implementation of the International Covenant on Economic, Social and Cultural Rights: Fifth Periodic Report Submitted by Ukraine under articles 16 and 17 of the Covenant, June 7.

U.S. Agency for International Development. 2002. *USAID/Ukraine Country Strategic Plan for FY 2003-2007*. September.

\_\_\_\_\_. 2008. "Ukraine." Congressional Budget Justification, FY09.

\_\_\_\_\_. Mission to Ukraine. 2008a. "Civil Society and Media." <http://ukraine.usaid.gov>, February.

\_\_\_\_\_. Mission to Ukraine. 2008b. "Combating Corruption in the Public Sector." <http://ukraine.usaid.gov>, February.

\_\_\_\_\_. Mission to Ukraine. 2008c. "East/South Program Focus." <http://ukraine.usaid.gov>, February.

\_\_\_\_\_. Mission to Ukraine. 2008d. "Economic Enabling Environment." <http://ukraine.usaid.gov>, February.

\_\_\_\_\_. Mission to Ukraine. 2008e. "Financial Markets Development." <http://ukraine.usaid.gov>, February.

\_\_\_\_\_. Mission to Ukraine. 2008f. "Local Governance." <http://ukraine.usaid.gov>, February.

\_\_\_\_\_. Mission to Ukraine. 2008g. "Political Process and Governance." <http://ukraine.usaid.gov>, February.

\_\_\_\_\_. Mission to Ukraine. 2008h. "Rule of Law." <http://ukraine.usaid.gov>, February.

U.S. Department of State, 2008a. "Trafficking in Persons Report." <http://www.state.gov/g/tip/rls/tiprpt/2008/>.

\_\_\_\_\_. 2008b. "Country Reports on Human Rights Practices-2007." <http://www.state.gov/g/drl/rls/hrrpt/2007/100590.htm>.

\_\_\_\_\_. 2008c. "Foreign Operations Appropriated Assistance: Ukraine." September. <http://www.state.gov/p/eur/rls/fs/109722.htm>.

\_\_\_\_\_ and U.S. Agency for International Development. (2006) *Strategic Plan: Fiscal Years 2007-2012*.

U.S. Department of Labor. 2007. "The Department of Labor's 2006 Findings on the Worst Forms of Child Labor." Available at: <http://www.dol.gov/ilab/programs/ocft/PDF/2006OCFTreport.pdf>

U.S. Trade Representative's Office. 2006. "United States and Ukraine Sign Bilateral WTO Accession Agreement on Market Access." March 6.

\_\_\_\_\_. 2008. "United States and Ukraine Sign Trade and Investment Cooperation Agreement." April 1.

Weigand, Christine and Margaret Grosh. 2008. *Levels and Patterns of Safety Net Spending in Developing and Transition Countries*. SP Discussion Paper No. 0817. Washington, DC: World Bank, June.

- Wheeler, Jeffrey S. and B. Lynn Salinger. 2009. "Labor Sector Strategic Assessment Guide – Draft." Circulation draft. Burlington, VT: ARD, Inc., June.
- Williams, Colin C. and John Round. 2007. "Re-thinking the Nature of the Informal Economy: Some Lessons from Ukraine." *International Journal of Urban and Regional Research*, 31 (2) (June): 425-41.
- Woehrel, Steven. 2005. "Ukraine's Orange Revolution and U.S. Policy." CRS Report RL32845. Washington, DC: Congressional Research Service.
- \_\_\_\_\_. 2008. "Ukraine: Current Issues and U.S. Policy." CRS Report RL33460. Washington, DC: Congressional Research Service, September 10.
- World Bank. 2005a. *Ukraine Jobs Study: Fostering Productivity and Job Creation, Volume II: Technical Chapters*. Report No. 32721-UA. Washington, DC, November 30.
- \_\_\_\_\_. 2005b. "Ukraine: Poverty Assessment – Poverty and Inequality in a Growing Economy." Report No. 34631-UA. Washington, DC.
- \_\_\_\_\_. 2006a. *Ukraine Jobs Study: Fostering Productivity and Job Creation, Volume I: Overview*. Report No. 32721-UA. Washington, DC, February 10.
- \_\_\_\_\_. 2006b. *Ukraine: Creating Fiscal Space for Growth: A Public Finance Review*. Report No. 36671-UA. Washington, DC: World Bank, September 14.
- \_\_\_\_\_. 2007. *Ukraine: Poverty Update*. Report No. 39887-UA. Washington, DC, June 20.
- \_\_\_\_\_. 2008a. "Provision of Voluntary Private Pension Schemes in Ukraine: Review and Recommendations." March.
- \_\_\_\_\_. 2008b. *Doing Business 2009: Country Profile for Ukraine*. Washington, DC.
- World Economic Forum. 2008. *The Ukraine Competitiveness Report 2008: Towards Sustained Growth and Prosperity*. Geneva.
- World Trade Organization. 2008. "Report of the Working Party on the Accession of Ukraine to the World Trade Organization." WT/ACC/UKR/152. Geneva, 25 January.
- Worldwide Strategies Inc. 2007. *Labor Transition in the Coal Sector: Southeast Europe*. March.
- Yevgeniya, Dodina. 2004. "Relations between NGOs and Trade Unions: The Case of Ukraine," *Development in Practice* 14, 280 (February).

## WEBSITES

- Website of the Confederation of Free Trade Unions of Ukraine, [www.kvpu.org.ua](http://www.kvpu.org.ua).
- Website of the Federation of Trade Unions of Ukraine, [www.fpsu.org.ua/eng/](http://www.fpsu.org.ua/eng/).





**U.S. Agency for International Development**  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
Tel: (202) 712-0000  
Fax: (202) 216-3524  
[www.usaid.gov](http://www.usaid.gov)